



# Shareholder Newsletter

*September 2013*



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## Shareholder Calendar

Annual General Meeting.....	20 November 2013
Interim Results Announcement.....	28 February 2014
Record Date for Interim Dividend.....	14 March 2014
Payment Date for Interim Dividend .....	28 March 2014
2014 Annual Results Announcement .....	29 August 2014

These dates may change at the company's discretion.

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# Chair and Managing Director's Report

*Dear shareholder,*

The past 12 months has been one of the busiest but most satisfying for Australian Ethical from many perspectives. The external environment has been characterised by numerous themes that have highlighted the strong ethical leadership of our investments, financial markets that are stronger but still volatile and the continuation of one of the most significant periods of regulatory change affecting the financial services industry for many years. Internally we have begun to see the fruit of many of the improvements we have made to the business over the past few years.

The key highlights for the year include:

## **Significant improvement in profits**

Our profits for the financial year to 30 June 2013 have shown a significant improvement over the previous year due to a number of factors including improved market conditions, a continued focus on cost management and steadily improving new business and flows. Moreover, the strong result was achieved despite a number of fee reductions in order to make our funds more competitive and better value for our clients, a significant investment in the business to improve our systems and strengthen compliance, a further impairment on our building in Canberra and the impairment to listed securities held in respect of our Advocacy fund.

The changes to the business over the past few years have set us up for a healthy and sustainable future. More detail on the financial results is set out on page 7.

## **Competitive returns from ethical investment**

It has been five years since the commencement of the global financial crisis and financial markets in Australia and overseas continue to be volatile and unpredictable. However, over the past year we have seen an overall increase in global markets with the Australian market up some 16% (as measured by the All Ordinaries Index). This has had a positive impact on our funds under management and hence our revenues.

The investment performance of our funds continues to be strong over the long term with most of them having performed in line with or above the median fund in their relevant Mercer surveys. Our Larger Companies Trust was ranked in the top 4 retail and wholesale All Growth Funds returning 28% for the year whilst our International Trusts return of 32% was above the median.

The long term performance of our flagship Smaller Companies Trust remains well above benchmark returning 9.4% per annum (net of fees) for the last 10 years versus the Small Industrial Index of 6.3%, ranking it 7th in the Australian Equity (All Caps) Mercer Survey.



Photos from our 2013 Community Grant recipients (see page 9). Left: Free to Shine, Middle: Street Swags, Right: Asylum Seeker Centre

### Our ethical leadership

A number of themes have attracted headlines throughout the year which have highlighted the leadership position of our products when it comes to our strong conviction to ethics. These have included tobacco (a number of major funds took the step of selling out), climate risk (reports throughout the year have highlighted that the risk may be greater than previously thought) and human rights (supply chain issues following the factory collapse in Bangladesh).

The climate risk of superannuation funds and their exposure to fossil fuels has been a particular area of interest and an issue that was given oxygen by the visit to Australia by Bill McKibben plus other local group's campaigning efforts. It has highlighted the strong conviction that we have in our investment decisions with no exposure to coal, oil or gas extraction. This unique position in the market, especially in superannuation, has led to increased interest in our fund for those wishing to avoid investing in those areas. A survey by Market Forces suggested that one in four super members would switch funds to avoid coal and coal seam gas and we are busy trying to convert each and every one of them!

During the year we took a public stand with regard to the new tobacco exposure of Tomra, a Norwegian company in which we have successfully invested over a number of years. Amongst other efficient and sustainable products, Tomra make reverse vending machines - you put the bottles in and receive money back. Unfortunately Tomra bought a company last year which made tobacco sorting machines. After the company refused our request to exit what is a small part of their business, we engaged other international institutional shareholders and put forward a resolution to their annual general meeting requiring them to stop selling these machines. In the course of the engagement with other investors we learned

just how deep our analysis is as most of those investors were not even aware of the tobacco exposure.

Finally, the incidents of this year in Bangladesh highlighted the need for companies and investors to take more care with their supply chains, something we have been incorporating into our investment process for many years.

There is an ever-increasing trend of wider consumer consciousness and advocacy towards brands and businesses that care for the planet and we are asking people to make the same connection with their long term investments. Our wealth is a large part of who we are and to invest other than in accordance with our values is simply inconsistent. Collectively our combined wealth has a significant influence on helping to shape a better world.

### Refreshed brand, website and communications

During the year we introduced our refreshed brand identity, our new website and significantly improved new client engagement processes using more upbeat and interactive communications with a focus on sharable content. The aim has been to make clients' involvement with Australian Ethical a positive and engaging experience and to emphasise the positive impact their investments are having on society and the planet, whilst giving them the means and desire to share their experience with others.

Our new business flows, increased conversion of prospects and strong growth of our online (especially social media) community has shown this effort to be a great success.

### New business and flows

As a result of improved awareness and focus on more strategic sales and marketing activities, our monthly new clients are at record levels. New clients for the month of June were 269 compared to 146 last year, an increase of 84%. Equally, new default or registered employers, a key focus of our sales and product improvement efforts, increased significantly over the past year.

Whilst new business across superannuation takes longer to impact revenues as members build up their balances over time, our superannuation inflows remain strong and our managed funds flows are improving as confidence in financial markets, especially shares, returns.

### Regulatory changes and other business improvements

The past few years has seen the most intensive regulatory change in financial services in decades. It has been estimated that some \$1.5 billion has been spent by the industry in preparation for these changes. A lot of our focus over the past 12 months has been on preparing for the new superannuation regime which commenced on 1 July 2013. We have been preparing for MySuper and adjusting our managed fund products to be compliant with FoFA (Future of Financial Advice).

Over the course of the financial year we have also further invested in other business improvements, including:

- we changed the administrator of our superannuation fund in order to provide our members with an improved service at a lower cost

- we introduced new and improved insurance for our superannuation members which is now some of the most competitive in the superannuation industry.

The changes are to ensure that we remain not only the most ethical of funds but that we continuously improve the financial and client service aspects of our products.

### Board changes

Over the year, we welcomed a number of new board members in Mara Bun, Tony Cole and Kate Greenhill, continuing the company's commitment to a board comprising the strong mix of skills and experience required for a highly regulated and rapidly changing environment.

André Morony retired as Chair in February after two years in the role and has recently announced that he will not be re-standing for election at the upcoming Annual General Meeting. André's contribution to the board over 5 years has been invaluable, particularly the guidance and commitment he provided as Chair over the past two years.

As foreshadowed at the 2012 Annual General Meeting, Justine Hickey retired from the board in March after 6 years of service. We thank Justine for her enormous contribution and insight over that time.

Steve Newnham recently retired from the Board after securing a full time executive role with another organisation. Steve's experience, insight and relationships particularly in the areas of retail sales and distribution were significant and greatly appreciated.



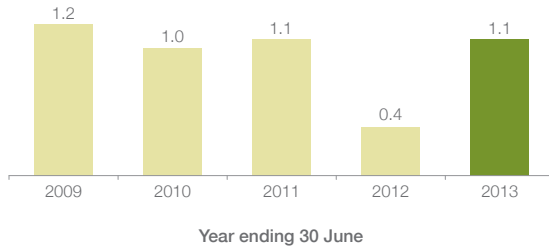
Phil Vernon  
Managing Director



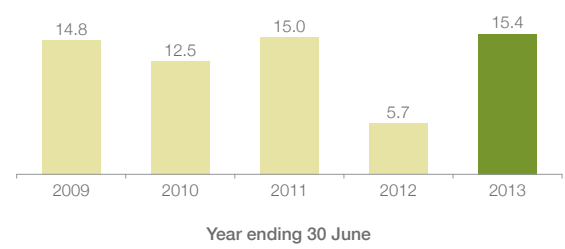
Steve Gibbs  
Chairman

# Financial Summary

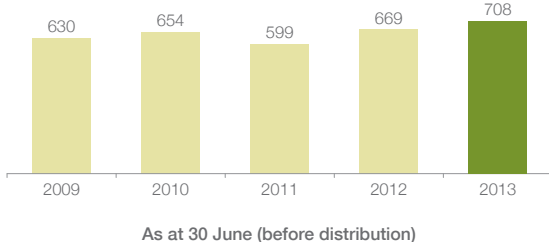
*Profit After Tax (\$m)*



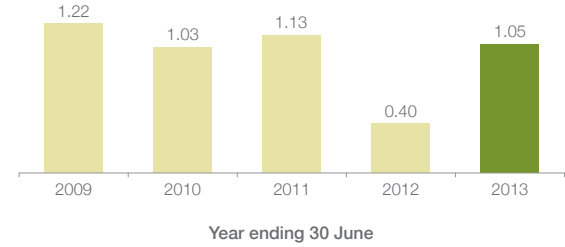
*Return On Equity (%)*



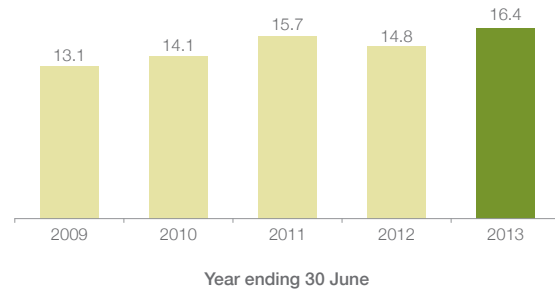
*Funds Under Management (\$m)*



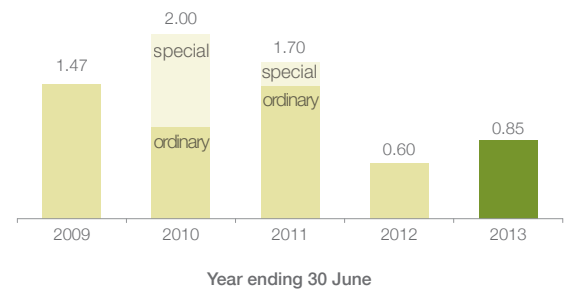
*Basic Earnings Per Share (\$)*



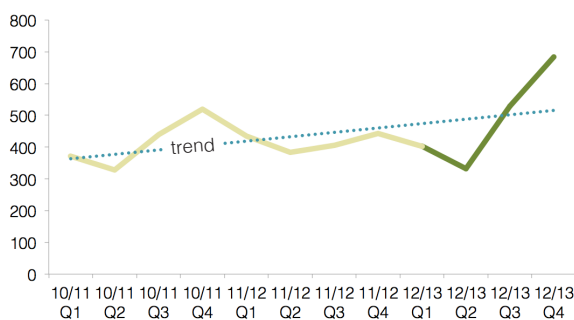
*Revenue (\$m)*



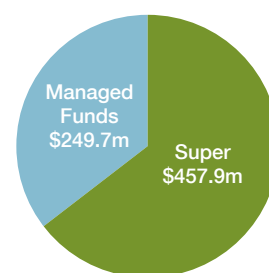
*Dividends Paid (\$)*



*New Clients (by quarter)*



*Funds Under Management*



## Financial results

Profit	2012 (\$000)	2013 (\$000)	% change
Revenue	14,793	16,378	10.7%
Operating expenses	13,789	13,708	(0.6%)
Abnormals, tax and community grants	602	1,607	
Net Profit After Tax (NPAT)	402	1,063	164%
Adjustments			
Add back employment restructure expenses	319	-	
Add back property revaluation	210	436	
Add back legal costs for shareholder actions	125	85	
Add back revaluation of listed securities	-	117	
Tax on adjustments	(197)	(26)	
Underlying Net Profit After Tax (UPAT) <sup>1</sup>	859	1,675	95%

<sup>1</sup> This table has been prepared in accordance with the Australian Institute of Company Directors (AICD)/Finsia principles for reporting underlying profit and ASIC's Regulatory Guide 230 Disclosing non-IFRS financial information. Underlying profit after tax has not been reviewed or audited by our external auditors, however the adjustments to net profit have been extracted from the books and records that have been audited.

Funds Under Management	2012 (\$m)	2013 (\$m)	% change
Opening FUM	644	627	(2.6%)
Super flows (net)	19	18	(7%)
Managed Funds flows (net)	(24)	(17)	31%
Net Flows	(5)	1	
Market movement	(13)	80	
Closing FUM	627	708	12.9%

Dividends	2012 (cents per share)	2013 (cents per share)	% change
Interim (fully franked)	25	40	
Final (fully franked)	35	45	
Total dividend	60	85	42%

## Notes to Results

### Key factors impacting the results are:

**Higher market values** – the All Ordinaries Index increased by 16% over the financial year. This overall increase in the market impacted on our funds under management. As our revenues are primarily related to funds under management this had a consequent impact on our revenues.

**More competitive fees** – during the previous financial year we made a number of adjustments to our fees all of which were effective from 1 July 2012. These changes were aimed at making our products more competitive and better value for our clients.

**Cost management** – operating expenses reduced by 0.6% for the year due to lower staff numbers and a general focus on efficiency. This was despite investment in more robust compliance infrastructure and project resources supporting major projects throughout the year.

**Impairment to building** – we incurred a further non-cash impairment charge of \$436k with respect to our property in Canberra.

**Impairment to value of listed securities** – we incurred an impairment on the value of listed securities of \$117k. These securities are held in respect of the Advocacy Fund (previously the Climate Advocacy Fund) where shares were bought on balance sheet to support advocacy activities against certain companies. Due to a sustained reduction in the value of these securities an impairment was necessary.

## Dividend

In arriving at the final dividend determination, the board took account of the following factors:

- Regulatory considerations
- Market uncertainty
- Future potential strategic requirements

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# 2013 Community Grants



Image from 2013 community grant recipient, Free to Shine

As prescribed in Australian Ethical's constitution, 10% of our profit is donated to charitable, benevolent and conservation purposes as part of our contribution to a positive and sustainable society. This is one of the highest levels of corporate giving in Australia based on percentage of profits. It is something that the shareholders, staff and directors should be very proud of.

This year, grant applications were received by an excess of 300 organisations across a range of humanitarian, environmental and animal welfare organisations. The majority of the applications were of high quality, suited our selection criteria, and adhered to our Australian Ethical Charter and therefore made the task of determining a short list, for voting by staff and shareholders, extremely hard.

Voting was again strong and this year leaned heavily towards humanitarian projects (in stark contrast to last year's skew to wildlife conservation). Australian Ethical will be donating \$117,300 to a total of 11 organisations, bringing the total amount donated over the past 13 years to almost \$1.5 million.

This year's grants range in size from \$4,000 to \$30,000 and over half of the projects will be fully funded by Australian Ethical. Recipient groups have a strong focus on efficiently delivering tangible outcomes.

In addition to their grant, all recipients will receive a free two-year subscription to the Centre for Sustainable Leadership's (CSL) Leadership Rewired online training package. In addition, we plan to work with our clients to help crowdsource the remaining funding for the grant recipients that we were unable to fully fund.



## 2013 Grant Allocation

Street Swags	80 street swags	\$4,800	Project fully funded
Free to shine	Scholarship for girls at risk	\$9,000	Project fully funded
Asylum Seeker Centre	Employment assistance program	\$30,000	Project fully funded
East Timor Women Australia	Fair futures for women & girls in Timor-Leste	\$30,000	Partially funded
Kokoda Track Foundation	Lighting Up Papua New Guinea	\$10,000	Project fully funded
Communities @ Work	The Yellow Van food rescue	\$4,000	Project fully funded
Inanna	Comforting kids	\$5,000	Project fully funded
40K Foundation Aust	40K PLUS	\$7,250	Partially funded
Australian Conservation Foundation	100% renewable ready - clearing the barriers to change	\$7,250	Partially funded
Primary Ethics	Delivery of ethics classes	\$5,000	Partially funded
The Orangutan Project	Wildlife Protection Units	\$5,000	Partially funded

### Street Swags – 80 Street Swags

Our grant will help fund the supply of waterproof sleeping swags to the homeless because shelters do not have enough beds, so better than turning away with no shelter at all. Swags are sewn by prisoners in Qld and WA gaols, for which they gain TAFE qualifications. School kids roll and pack the swags.



<http://www.streetswags.org>

### Free to Shine Ltd – Scholarship for girls at risk

Free to Shine works to empower Cambodian girls through education to end sex slavery by providing scholarships. Poverty stricken rural villages struggle to feed children; most don't go to secondary school and teenage girls with no education are high risk being targeted by traffickers.



<http://www.free-to-shine.org>

### Asylum Seeker Centre – Employment assistance scheme

This project will assist asylum seekers to find meaningful and fairly paid employment aligned with their skills and experience. A grant will be used to employ an officer to train and support a team of skilled volunteers coaching asylum seekers. Part of it will also be used for microfinance loans to members of the community.



[www.asylumseekerscentre.org.au](http://www.asylumseekerscentre.org.au)

### East Timor Women Australia (ETWA) – Fair futures for women & girls in Timor-Leste



ETWA aim to empower women involved in producing naturally dyed hand-woven textiles in Timor-Leste. This project will establish fair trade standards, sustainable cultivation of organic cotton and dye plants, supply-chain sustainability, weaving school and design collaboration.

<http://www.etwa.org.au>

### **Kokoda Track Foundation – Lighting Up Papua New Guinea**

Lighting Up PNG is a project to provide four micro-loans to women's groups to assist in the training and establishment of solar-shops which will provide 800 solar LED lights for families in the Kokoda region. This will result in successful distribution, growth in solar shops, and improvement in living conditions.

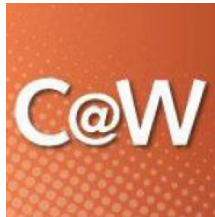


The Kokoda Track Foundation

<http://www.kokodatrackfoundation.org>

### **Communities @ Work – The Yellow Food Van**

Communities@Work continue to rescue and deliver over 20 tonnes of good food, from 160 local businesses, providing over 60,000 meals to disadvantaged people, reducing 16m litres of water used in food production, and saving good food from landfill. Our grant will help expand this program.



<https://commsatwork.org>

### **Inanna Inc – Comforting Kids**



When women and children escape domestic violence they often take few possessions. This project enables kids to personalise and decorate their room in the transition home to feel more comfortable (eg. linen, lamps, pictures). They then can take these items with them when they leave the home.

<http://www.inanna.org.au>

### **40K Foundation Australia – 40K PLUS**

A project to set up 34 centres (or pods) in pre-existing buildings in villages to provide up to 1000 children living in poverty in India with a dynamic learning space for two hours every weekday. The outcomes will be increased education level, high attendance, parental attendance, and upskilling women in villages.



<http://40k.com.au>

### **Australian Conservation Foundation–100% renewable ready–clearing the barriers to change**

ACF will undertake a comprehensive assessment highlighting the top five existing market, regular and financial barriers that are preventing a move to 100% renewable energy in Australia. They will use our grant to produce five videos to communicate these barriers, engage supporters and monitor their impact.



<http://www.acfonline.org.au>

### **Primary Ethics Ltd – Ethics Classes**

Grant will assist with paying full time employee to drive recruitment of volunteers– broadening delivery of ethics classes into 110 new schools in lower socio-economic areas of NSW.



<http://www.primaryethics.com.au>

### **The Orangutan Project – Wildlife Protection Units**

Our grant will help establish, train and maintain WPU to secure released Sumatran orangutan populations and habitat at Bukit Tigapuluh. The project also aims to prevent illegal logging, assist in reintroduction of orangutans and collect wildlife data.



<http://www.orangutan.org.au>



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