

Australian Ethical Investment Ltd

Notice of Meeting

Twenty seventh Annual General Meeting

10am Wednesday, 20 November 2013

18 October 2013

Dear Shareholder,

Notice of Annual General Meeting Wednesday, 20 November 2013 @ 10 am

I invite you to attend Australian Ethical Investment Ltd's Annual General Meeting to be held at:

The "Han" Meeting Room,
Mezzanine Level
Christie Offices
3 Spring Street
Sydney NSW 2000

The Company has had a good year as was explained in our recent Shareholder Newsletter. Many of the improvements made to our products, services and business overall over the past few years are now bearing fruit. The Company is at record funds under management and new members are joining at the greatest rate in our history. A continued focus on improving our operations and compliance has ensured that we've been authorised by the Australian Prudential Regulatory Authority to offer a MySuper product, which is required for a super fund to accept default employer contributions.

The Board has changed considerably over the last year with the appointment of four non executive Directors. We operate in a highly complex, rapidly changing and regulated environment and it is critical that we have the right mix of skills required to provide strategic input and effective governance over the business. The new Directors were appointed after an extensive search process and we believe we have a strong team to take the business forward.

I would like to thank André Morony for his enormous contribution to our Company and our current success. Mr Morony has been a Director since 1 July 2008 and served as Chair from March 2011 to February 2013. He has also been active in carrying out committee work. Mr Morony is highly regarded in both the Company and the financial services industry and his decision, which I understand is driven by a desire to reduce his commitments, is a sad one for the Company.

On a more cheerful note, as our result for the 2012/13 financial year shows, there are many reasons to be positive about the future of Australian Ethical and I welcome the opportunity to discuss this with you at the Annual General Meeting.

I enclose the formal Notice of Meeting, explanatory material, a proxy form and a form for the submission of written questions. Depending on your annual report preferences, a copy of the 2013 Annual Report may be included. The Annual Report is also available from our website here: www.australianethical.com.au/annual-reports

If you cannot attend please do use your proxy and vote!

The Board and CEO look forward to meeting you at the AGM.

Yours sincerely



Stephen Gibbs
Chair
AUSTRALIAN ETHICAL INVESTMENT LTD

Notice of Meeting

The Annual General Meeting of Australian Ethical Investment Limited will be held on Wednesday, 20 November 2013, commencing at 10 am at:

**The “Han” Meeting Room
Mezzanine Level
Christie Offices
3 Spring Street
Sydney NSW 2000**

Explanatory material for the business to be conducted is attached to and forms part of this Notice and should be read carefully (**Explanatory Notes**).

Ordinary Business

1. **Accounts**

To receive and consider the financial statements of the Company and its controlled entity for the year ended 30 June 2013 and the related Directors’ Report, Directors’ Declaration and Auditor’s Report.

2. **Election of Mara Wickerhauser Bun**

To consider and, if thought fit, pass the following resolution as an ordinary resolution:

That Mara Bun, who having been appointed as a Director since the last annual general meeting, retires by operation of clause 11.4 of the Company’s Constitution and, being eligible, offers herself for election, be elected as a Director of the Company.

3. **Election of Anthony Stuart Cole, AO**

To consider and, if thought fit, pass the following resolution as an ordinary resolution:

That Tony Cole, who having been appointed as a Director since the last annual general meeting, retires by operation of clause 11.4 of the Company’s Constitution and, being eligible, offers himself for election, be elected as a Director of the Company.

4. **Election of Katherine Ann Greenhill**

To consider and, if thought fit, pass the following resolution as an ordinary resolution:

That Kate Greenhill, who having been appointed as a Director since the last annual general meeting, retires by operation of clause 11.4 of the Company’s Constitution and, being eligible, offers herself for election, be elected as a Director of the Company.

5. Removal of Phillip Vernon from the office of Director

The following resolution has been proposed by a group of shareholders. It is NOT supported by the Board. Shareholders are urged to read the relevant item in the Explanatory Information.

To consider and, if thought fit, pass the following resolution as an ordinary resolution:

That Mr Phillip Vernon, who currently holds office as a Director of the Company, be removed from that office immediately.

6. Adoption of Remuneration Report

To consider and, if thought fit, pass the following resolution as an ordinary resolution:

That the Remuneration Report as set out in the Annual Report for the financial year ended 30 June 2013 be adopted.

7. Grant of Performance Rights to Phillip Vernon, CEO & Managing Director

To consider and, if thought fit, pass the following resolution as an ordinary resolution:

That for the purpose of ASX Listing Rule 10.14 approval is given for Phillip Vernon to participate in the employee incentive scheme and acquire rights to fully paid ordinary shares on the terms and conditions described in the Explanatory Notes.

By order of the Board

Tom May
Company Secretary

Explanatory Material

Resolution 1 Accounts

The financial statements of the Company for the 2012/2013 financial year have been lodged with the Australian Securities Exchange and with the Australian Securities and Investments Commission in accordance with statutory lodgement timetables and requirements. The financial statements are tabled at the AGM to be received and considered by shareholders. No formal resolution on the financial statements and reports is required.

Resolution 2 Election of Mara Bun

The Board recommend shareholders vote FOR Resolution 2.
The Chairman of the Meeting intends to vote all available proxies FOR Resolution 2.

In accordance with the Constitution Mara Bun was appointed by the Directors and will retire under clause 11.4 which requires that any director so appointed holds office until the next following general meeting and is then eligible for election. Ms Bun is standing for election. Details of Ms Bun's qualifications and experience are:

Mara Bun

Non-Executive Director
BA

Ms Bun was appointed as a Non-Executive Director on 4 February 2013. Ms Bun has more than 20 years of business and community experience.

Ms Bun was born and raised in Brazil and worked and studied economics and political studies at Williams College, Massachusetts before moving to Australia in 1991.

Ms Bun was the founding CEO of Green Cross Australia when it was established in 2007. Green Cross International was founded in 1993 by former Soviet statesman Mikhail Gorbachev to create a new approach to solving the world's most pressing environmental challenges by reconnecting humanity to the environment. Ms Bun continues to be the CEO of Green Cross Australia.

Ms Bun has previously worked for The Wilderness Society, Greenpeace Australia, Choice, the CSIRO and a number of financial organisations both in Australia and the US. She was a Director on the Board of Bush Heritage Australia for eight years and a member of the NSW Sustainable Energy Development Authority Advisory Council for six years.

Resolution 3 Election of Tony Cole

The Board recommend shareholders vote FOR Resolution 3.
The Chairman of the Meeting intends to vote all available proxies FOR Resolution 3.

In accordance with the Constitution Tony Cole was appointed by the Directors and will retire under clause 11.4 which requires that any Director so appointed holds office until the next following general meeting and is then eligible for election. Mr Cole is standing for election. Details of Mr Cole's qualifications and experience are:

Tony Cole, AO

Non-Executive Director

BEC

Mr Cole was appointed as a Non-Executive Director on 4 February 2013. Mr Cole is a member of the Investment Committee.

Mr Cole has a background in investment and public service. For the past 17 years he has been a senior investment consultant and executive in Mercer's Investment Consulting business, including heading the business in the Asia Pacific region for more than five years. Mr Cole remains a Senior Partner in Mercer working on a part time basis.

Prior to joining Mercer, Mr Cole held several senior positions in the Commonwealth Public Service, including Secretary to the Treasury, Secretary of the Department of Health and Social Security, Deputy Secretary to the Department of the Prime Minister and Cabinet and Chairman of the Industry Commission (now the Productivity Commission). Mr Cole served as an Alternative Director of the World Bank and was Treasurer Paul Keating's principal economic adviser and head of office in the early years of the Hawke-Keating government.

Mr Cole is currently a Trustee Director of the Commonwealth Superannuation Corporation and a member of the Advisory Board of the Northern Territory Treasury Corporation. He Chaired the Advisory Board of the Melbourne Institute for 10 years and was a longstanding member of the Australian Office of Funds Management Advisory Board.

Tony has a BEc from Sydney University. In 1995 he was awarded an Order of Australia for services to government and industry. He was made a life member of the Investment Management Consultants Association in 2012.

Resolution 4 Election of Kate Greenhill

The Board recommend shareholders vote FOR Resolution 4.

The Chairman of the Meeting intends to vote all available proxies FOR Resolution 4.

In accordance with the Constitution Kate Greenhill was appointed by the Directors and will retire under clause 11.4 which requires that any director so appointed holds office until the next following general meeting and is then eligible for election. Ms Greenhill is standing for election. Details of Ms Greenhill's qualifications and experience are:

Kate Greenhill

Non-Executive Director

BEC FCA GAICD

Ms Greenhill was appointed as a Non-Executive Director on 22 February 2013. Ms Greenhill is a member of the Audit, Compliance & Risk committee and the People, Remuneration & Nominations Committee.

Ms Greenhill is an experienced executive with extensive knowledge of finance and risk and a passion for directing strategy, collaboration and mentoring. Working in both Australia and UK, she has over 18 years experience in providing assurance and advisory services to clients in the financial services industry.

Ms Greenhill was formerly a Partner with PricewaterhouseCoopers assisting clients with advice and assurance in relation to financial statement audit opinions, accounting and regulatory developments, capital raisings, accounting for complex transactions, due diligence, valuations, compliance, risk management, organisational structure and the operation of controls.

Ms Greenhill is a Director, and member of the finance committee, for a not for profit organisation.

Retirement of André Morony

The three resolutions above deal with the appointment of new directors. However, the Board also wants to acknowledge André Morony who retires by rotation in accordance with the Company's Constitution and for personal reasons has decided not to offer himself for re-election. The Board thanks Mr Morony for his contribution to the Company over the last 5 years, two of them being as the Chair.

Resolution 5 Removal of Phil Vernon from Office of Director

The Board does NOT support Resolution 5.

Shareholders are urged to vote AGAINST Resolution 5.

The Chairman of the Meeting intends to vote all available proxies AGAINST Resolution 5.

This resolution has been proposed by a group of shareholders that have been making numerous repeated claims against the company, Mr Vernon and other Directors over the past few years.

Mr Vernon joined Australian Ethical at the end of 2009 with a mandate to address the company's numerous challenges in the face of what was a rapidly changing, increasingly competitive and more stringent regulatory environment. This required considerable restructuring and changes to the company's operations. These changes were necessary in order for the company to thrive in the new environment. As described elsewhere, the Board consider the current performance of the company to be a direct result of these changes.

Under Mr Vernon's stewardship, achievements include:

- Significant restructuring of product fees to enhance their competitiveness;
- Securing better and cheaper administration for Superfund members;
- Securing better and cheaper insurance for members;
- Securing MySuper authorisation for our Superfund;
- Refreshing the brand and establishing a vibrant social media presence;
- Receiving numerous industry awards for our products and business in general;
- Dramatically improved productivity;
- Achieving record funds under management;
- Achieving record superfund members;
- Achieving record monthly new client numbers;
- Achieving strong profit results despite fee adjustments and building and other impairments.

This group of shareholders sought to remove Mr Vernon (and other Directors) at a General Meeting they called for 21 June 2012 and at the Company's 2012 Annual General Meeting. The outcomes of each of these meetings were votes firmly in favour of Mr Vernon and the Board.

The Board is fully supportive of Mr Vernon in both his capacity as a Director and as Chief Executive Officer and see no justification for the resolution on the basis of performance or otherwise.

Phillip Vernon*Managing Director & CEO**BEC, MCom, MBA, FCPA, GAICD*

Mr Vernon joined the Company as Chief Executive Officer in December 2009 and was appointed Managing Director in July 2010. He is also a director of Australian Ethical Superannuation Pty Limited.

Mr Vernon has 25 years experience in financial services including funds management and superannuation. Prior to joining the Company he was a member of the Executive Committee of Perpetual Limited. He has extensive experience in strategy, people management and leadership, corporate governance and industry regulation.

Mr Vernon is a Director of Planet Ark, an environmental not for profit organisation. He is also a Director and Treasurer of the Responsible Investment Association of Australia and a member of the Advisory Board of the Association for Sustainable & Responsible Investment in Asia.

Resolution 6 Remuneration Report

The Board does not consider it appropriate to give a recommendation on Resolution 6 as it relates to their remuneration.

The Chairman of the Meeting intends to vote all available proxies FOR Resolution 6.

Section 250R(2) of the Corporations Act 2001 requires directors to put forward and afford shareholders an opportunity to vote on a resolution to accept the Remuneration Report included in the Directors' report in the Annual Report. The Remuneration Report outlines the Company's remuneration arrangements for Directors, the Managing Director and CEO, and for certain Company executives for the financial year ended 30 June 2013. A reasonable opportunity for discussions of the remuneration report will be provided at the annual general meeting.

Under section 250R(3) the vote on the resolution is advisory only and does not bind the Directors or the Company. However, the Board recognises the vote as an indication of shareholder sentiment and has careful regard to the outcome of the vote and any discussion when setting the Company's remuneration policies.

At the 2011 AGM more than 25% of the votes cast in respect of the resolution to adopt the 2011 Remuneration Report were against that resolution. The Company therefore recorded what is known as a "first strike" under the executive remuneration provisions of the Corporations Act 2001, which applied for the first time in 2011.

At the 2012 AGM more than 25% of the votes cast in respect of the resolution to adopt the 2012 Remuneration Report were against that resolution. The Company therefore recorded what is known as a "second strike". As a result, a spill meeting motion was required and was put to the 2012 AGM. 68.67% of the votes cast were against the spill meeting motion which meant a spill meeting was not required and the "strikes" were reset.

Accordingly, under the Corporations Act 2001, if 25% or more of the votes cast at this AGM and the 2014 AGM are against the adoption of the remuneration report, shareholders will be required to vote at the 2014 AGM on a "spill" resolution. If the spill resolution is passed in 2014 the Company will be required to convene another meeting within 90 days for the purpose of the re-election of all of the Company's then Directors.

Voting exclusion statement

As required by the Corporations Act 2001 (Corporations Act), no member of the Company's key management personnel, details of whose remuneration are included in the Remuneration Report, or a closely related party of any such member, may vote in any capacity (e.g. as a shareholder, proxy or corporate representative) on the proposed resolution in Resolution 6 unless:

- the person votes as a proxy appointed by writing that specifies how the person is to vote on the proposed resolution in Resolution 6; and
- the vote is not cast on behalf of any such member or closely related party of any such member.

The prohibition in the Corporations Act on members of the Company's key management personnel voting does not apply to the Chairman of the Meeting as proxy for a member entitled to vote where the proxy appointment expressly authorises the Chairman of the Meeting to vote in that capacity on Resolution 6 (see the attached Explanatory Material for AGM Agenda items for further information).

Resolution 7 Employee Share Incentive Scheme

**The Board (with the exception of Mr Vernon) recommend shareholders vote FOR Resolution 7.
The Chairman of the Meeting intends to vote all available proxies FOR Resolution 7.**

This resolution is proposed for the purposes of ASX Listing Rule 10.14 which requires shareholder approval before a director of the Company may participate in the Company's employee share incentive scheme. Phillip Vernon is a Director and permanent staff member of the Company.

All permanent staff are entitled to participate in an award of performance rights under the Company's employee share incentive schemes which were initially approved by shareholders at the 2008 AGM.

Mr Vernon is a permanent employee of the Company and therefore to ensure that he is treated in the same way as all other permanent staff, he is entitled to participate in the scheme.

The performance hurdles which must be met before the performance rights issued to date to staff can convert to ordinary shares in the Company are set out in the Appendix 3B lodgements given to the ASX when those performance rights were issued.

Broadly speaking the performance rights issued by the Company have the following features.

- One performance right will convert to one AEF share which ranks equally with shares currently on issue.
- Employment must continue until either the end of the financial year in which the performance rights are issued or the end of the third complete financial year after the year of issue.
- For short dated performance rights the only condition staff, other than investment team staff, have to meet is the continuation of employment condition. Investment staff are also subject to the performance of the investment trust(s) they have most input to.

- For long dated performance rights the employment condition applies and the arithmetic average return on equity over the performance period (“AROE”) must exceed 15% p.a. or no AEF shares shall be awarded at the end of the performance period (set as 3 financial years). If the AROE exceeds 15% p.a. but is less than 20% p.a., half the maximum number of AEF shares shall be awarded. If the AROE is equal to or greater than 20% p.a. the maximum number of AEF shares shall be awarded. AROE is determined as the arithmetic average of return on equity over six month periods calculated using audited half-year financial statements.
- No additional amount is payable on the conversion of the performance rights, so no additional capital is raised.

The number of rights offered will be the sum of a portion of the rights issued to all employees and a portion related to Mr Vernon’s individual performance pay arrangements. The final amount is calculated by adding:

- the rights awarded to Mr Vernon after multiplying the maximum number of securities that can be issued in the financial year under the employee share incentive scheme by the ratio of Mr Vernon’s fixed remuneration to the total remuneration paid by the Company in that financial year; and
- the rights awarded if Mr Vernon meets his individual performance targets.

The maximum number of shares or short and long dated performance rights (**Securities**) that may be provided to Mr Vernon under the employee share incentive scheme over the three year period during which this approval is in force is 24,000. Any securities issued under this approval will be issued on or before 19 November 2016.

Performance rights will be granted for nil consideration; there is no loan in relation to the acquisition. Assuming performance hurdles and employment conditions are met, one ordinary share in the Company will be provided for each performance right. Shares may be issued by the Company or may be provided by the Company through the purchase of securities from existing shareholders. No additional consideration will be paid for the provision of the share.

Passing this resolution will also allow Mr Vernon to participate in the arrangements for the employee share incentive scheme for the next three years from the date of this AGM, without further shareholder approval.

Details of securities issued to executive directors under the employee share incentive scheme will be published in the Company’s Annual Report. The Annual Report will contain a statement that shareholder approval for the issue of the relevant shares and performance rights was obtained under ASX Listing Rule 10.14. The following performance rights have been issued under the employee share incentive scheme since the last approval under the ASX Listing Rules at the 2010 AGM on 17 November 2010.

Employee	Number of performance rights allotted	Issue Price
Mr Phillip Vernon	6,783	Nil

Any additional persons subject to listing rule 10.11 who become entitled to participate in the employee share incentive scheme who are not named in this notice of meeting will not participate in the employee share incentive scheme until approval is obtained under listing rule 10.14.

Non-executive Directors are ineligible to participate in any employee incentive scheme. The only current director eligible to participate in the scheme is Mr Vernon. Mr Vernon (and his associates) are subject to a voting exclusion on this resolution.

Non-executive Directors recommend that shareholders vote in favour of the resolution.

Voting exclusion statement

The Company will disregard any votes cast on Resolution 7:

- by or on behalf of Mr Vernon or another Director (other than a Director who is not eligible to participate in any of the Company's employee incentive schemes) or their associates, regardless of the capacity in which the vote is cast; or
- as a proxy by a member of the key management personnel at the date of the AGM (or any of their closely related parties);

unless the vote is cast as proxy for a person who is entitled to vote on Resolution 7, and:

- the vote is cast in accordance with a direction on the proxy form; or
- in the absence of a direction on the proxy form, the vote is cast by the Chairman and the Chairman has received express authority to vote undirected proxies as the Chairman decides.

Additional information

Annual report

The Company's annual report is available from its website at <http://www.australianethical.com.au/annual-reports>.

Proxies

A shareholder has the right to appoint a proxy, who need not be a shareholder of the Company. If a shareholder is entitled to two or more votes they may appoint two proxies and may specify the percentage of votes each proxy is appointed to exercise.

To appoint a proxy, ordinary shareholders should complete the proxy form distributed with this notice of meeting. The proxy form must be deposited at the share registry, Boardroom Pty Limited, or at the Company's Registered Office not later than 48 hours before the commencement of the meeting (i.e. by 10 am on Monday, 18 November 2013). Any proxy received after that time will not be valid for the scheduled meeting.

Proxies can be delivered as follows:

By hand	Boardroom Pty Limited Level 7, 207 Kent Street Sydney NSW 2000
By mail	Boardroom Pty Limited GPO Box 3993 Sydney NSW 2001
By facsimile	+ 61 2 9290 9655
Online	www.boardroomlimited.com.au/vote/aeiagm2013

If posting your proxy, please ensure you mail it sufficiently in advance so that it arrives by the required time.

In appointing a proxy, ordinary shareholders should consider how they wish to direct the proxy to vote. A shareholder can direct a proxy to vote "for" or "against" or abstain from voting on each proposed resolution; or they can leave the decision to the appointed proxy after discussion at the Meeting. If shareholders complete and return their proxy form but do not nominate the identity of the proxy, they will be taken to have appointed the Chairman of the Meeting as their proxy to vote on their behalf.

If the Chairman of the Meeting is appointed as your proxy or may be appointed by default, and you do not wish to direct your proxy how to vote in respect of Resolution 6 (Remuneration Report), please mark the last box under the heading "Step 1 – Appointment of Proxy" on the proxy form. By marking this box, you acknowledge that the Chairman of the Meeting may vote as your proxy even if they have an interest in the outcome of Resolution 6 and votes cast by the Chairman of the Meeting for Resolution 6, other than as proxy holder, will be disregarded because of that interest. If you do not mark this box on the proxy form and you have not directed your proxy how to vote the Chairman of the Meeting will not cast your votes on Resolution 6 and your votes will not be counted in calculating the required majority if a poll is called.

If you choose to appoint a proxy, you are encouraged to direct your proxy how to vote on Resolution 6 (Remuneration Report) by marking either “For”, “Against” or “Abstain” on the proxy form for each of those items of business.

The Chair will vote all undirected proxies:

- **in favour** of resolutions 2, 3, 4, 6 and 7; and
- **against** resolution 5.

If you appoint the Chairman of the Meeting as your proxy and wish to vote differently to how the Chairman of the Meeting intends to vote on any of the items, you must mark “For”, “Against” or “Abstain” on the proxy form for the relevant resolution.

Voting entitlements

The Directors have determined that the shareholding of each shareholder for the purposes of ascertaining the voting entitlements for the AGM will be as it appears in the share register at 10 am on Monday, 18 November 2013 (Section 1074E; Regulation 7.11.37 Corporations Act 2001, ASTC Settlement Rules, Section 5.6).

Written questions

Members are able to put written questions to directors or to the auditors. To submit a written question please complete the question form distributed with this notice. Questions directed to the auditor should relate to the content of the auditor’s report or the conduct of the audit of the annual financial report to be considered at the meeting. Written questions addressed to the auditor will be passed onto the auditor for consideration.

The question form should be deposited at the Company’s Registered Office not later than five business days prior to the meeting – by 10 am on Wednesday, 13 November 2013. Written questions can be delivered to the Registered Office by hand, posted to Australian Ethical Investment Ltd, GPO Box 3993, Sydney NSW 2000 or faxed to 1 300 653 459. If posting your question form, please ensure that you mail it sufficiently in advance so that it arrives at the Registered Office by the required time. Please include the shareholder name on the form exactly as it appears on your holding certificate.

Recording of proceedings

Please note that the Company intends to record the proceedings of the AGM.

Written questions from shareholders

The Directors of Australian Ethical Investment Ltd invite you to ask written questions on:

- the management of the Company;
- the content of the auditor’s report to be considered at the meeting;
- the conduct of the audit of the annual financial report to be considered at the meeting.

This question form should be deposited at the Company’s Registered Office not later than five business days prior to the meeting - by 10 am on Wednesday, 13 November 2013. Written questions can be delivered to the Registered Office by hand, posted to Australian Ethical Investment Ltd, GPO Box 3993 Sydney NSW 2001 or faxed to 1300 653 459. If posting your question form, please ensure that you mail it sufficiently in advance so that it arrives at the Registered Office by the required time.

Please note that the Company intends to respond to written questions thematically. Answers to questions will be provided at the Annual General Meeting and will also be published on the Company’s website. The Company may not provide individual answers to written questions at the meeting. Also, the Company will not respond to or publish questions which in its view are defamatory, vexatious or which are the subject of or related to potential legal action by or against the Company. The Company may choose not to answer questions which:

- would require the publication of confidential or commercially sensitive information which could cause detriment to the Company; or
- are not posed by shareholders in their capacity as shareholders: for example questions asked by employee shareholders about specific staffing issues; questions asked by a contractor / shareholder about outsourcing arrangements; or questions asked by former directors or employees using confidential information obtained in their capacity as a director or employee.

Directors provide this opportunity to enable shareholders who may not be able to attend the Annual General Meeting to ask questions.

Shareholder name (exactly as it appears on holding statement)

--

Address and contact details

--

Question(s)

