

# TRANSCRIPT OF PROCEEDINGS



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## 2014 ANNUAL GENERAL MEETING OF AUSTRALIAN ETHICAL INVESTMENT LTD

**WEDNESDAY, 29 OCTOBER 2014**

MR GIBBS: Good morning. Ladies and gentlemen. I'm Steve Gibbs as you know, Chair of Australian Ethical Investment Ltd. I welcome you to the 2014 Annual General Meeting of Australian Ethical Investment Ltd. At the outset, I'd like to acknowledge the Ngunnawal people on whose land we meet today.

5 I pay my respects to their elders past and present and also to all Aboriginal and Torres Strait Islander peoples that are here today. The company secretary has advised me that a quorum which is two members is present and I therefore declare the Annual General Meeting open. I want to introduce to you some people who are in the room, apart from myself, our managing director and

10 Chief Executive Phil Vernon. On my left and our Company Secretary, Tom May. On my right, I want to introduce our other directors and others, and as I call the name I would like to ask you to stand up and turn around just so that the people in the room know who you are. So I now introduce you to your directors who are Mara Bun, Kate Greenhill, Tony Cole and of course our

15 managing director, I've already introduced Phil Vernon.

We also have some management and staff in the room Beth Hutchison who's here as the employee staff representative. Welcome Beth. David Mackrie, our Chief Investment Officer. David Barton, our Chief Financial Officer. Fiona

20 Horan, our Human Resources Consultant and Stuart Palmer, our Head of Ethics. The company's auditor Tanya Gilman a partner of KPMG is also present and the company's solicitor James Lonie a partner of Holding Redlich is also present. On your behalf, I welcome all of those people to the meeting. I also note that a number of our employees, some of them being shareholders,

25 are also present and I'd like to welcome them as well, as well as welcoming all our other shareholders.

I'll now just go through some procedures for the meeting before we commence the formal part. Each shareholder who has registered today would have

30 received a voting card. That card will be used for the purpose of holding polls. The status of the proxies is displayed in the handout available from the registration desk and will also be disclosed to the ASX after the meeting. The notice of meeting was dispatched to all shareholders. If there is no objection, I propose that the notice of meeting be taken as read. Thank you. The

35 procedure for the meeting is as follows, please note that we are recording?

MALE SPEAKER: Yes, we are.

MR GIBBS: We are recording today's proceedings and the recording –

40 transcript?

MALE SPEAKER: Recording.

MR GIBBS: And the recording may be posted on the company's website. The

plan for the meeting is as follows. I will deliver a short address then our managing director and CEO Phil Vernon will speak to you. I will then call for questions of myself or Phil. We will deal with the employee's status report as required by clause 2.2 of the constitution also at this stage. Following that we  
5 will move to the formal agenda. I will allow the directors facing election to address the meeting and I will allow questions to be put to those directors. In respect of the resolution for election of myself, I will vacate the chair and ask another director to chair that part of the proceedings. Then there will be an opportunity for shareholders to ask questions of management or as I said the  
10 opportunity will already have been given earlier after Phil's address. Polls will be then conducted and I have decided to put all of the resolutions to a poll. The returning officer Anita Das of Boardroom Pty Ltd will explain the voting procedures. Please listen to her carefully and if you are in any doubt ask her to explain the process to you. We do not want the situation where a shareholder's  
15 vote is not counted because they did not understand the process and/or did not comply with the rules put in place by Boardroom. I will then close the meeting. Our share registry service Boardroom Pty Ltd will determine the result of polls.

20 The results of the polls will be published on the ASX and company websites as soon as they are available which we expect to be some time this afternoon. Before I present my address it is appropriate for me to advise that under the Corporations Act the company is obliged to lay before the meeting the last audited financial statements and reports which were circulated and which are  
25 dated the 30 June 2014. Whilst there is no resolution with respect to these financial statements and reports, I will at the appropriate time of the meeting allow questions to be asked with respect thereto. I'm going to go – ladies and gentlemen, it's a very short address from myself.

30 It's been just over 18 months since I took over as chair and it has been obviously an extremely busy and transformative period for everybody and overall a very positive one in terms of results and progress. The 2013/2014 period was in many ways unprecedented. This time last year I spoke about how exciting the results for the first three months of the period had been and  
35 I'm pleased to say that they continued for the duration of the financial year. In the past 12 months we've seen the restructures and changes to the company come to fruition. Obviously those restructures and changes involved some pain. Phil Vernon and his management team and indeed all the staff have been working extremely hard to establish strong foundations for the business and it  
40 has really paid off.

I believe that we are now very well placed to enter a period of sustained growth. We have the right team in place with the skills and experience necessary to take Australian Ethical to the next level. We have the systems in

place that will allow us to scale efficiently and effectively and we have a focus on our clients and our community in order to deliver the best possible experience and to grow the business sustainably.

5 Whilst Phil will go in to the detail, some of the highlights of note that I'd like to share include net profit after tax of 139 per cent to 2.5 million. Funds under management were up 25 per cent, this is for the last financial year 13/14 to 887 million from 708 million. The highest in our almost 30 year history. Whilst last year at the AGM, I remarked that funds under management  
10 increases could only be attributed to market movements, in the 13/14 financial year it was driven equally by market movements and net inflows in to our investment products.

15 As announced to the market last Friday, our funds under management for the first quarter of the financial year have pushed closer to one billion. They were at the date of the – at the end of September at 960 million despite fluctuating markets. This is in part due to 35 million of net inflows in that quarter. I want to repeat that number. Net inflows of 35 million in one quarter. That's inflows, that's not market movements. It was not too long ago that net inflows  
20 of 35 million in a year would have been hailed as a very, very good result. This essentially matches that quarter's movement, the first quarter of the current financial year, essentially matches the net inflows for the last quarter of the 2014 financial year which is an amazing achievement as the last quarter of a financial year has historically been the highest period of flows for the  
25 industry and for Australian Ethical.

The directors of the company are the same as at last year's AGM and I trust they will be with us for some years to come. When I became chair, I promised board renewal and I'm particularly pleased with the composition of the current  
30 board. I believe we have the right mix of skills and experience on the board with the directors demonstrating a clear and strong commitment to the company and its strategic direction. Looking forward to the next few years, our strategy is to continue on this path of sustainable growth. We are looking at ways to evolve our business model and transform the company further to not  
35 only get us passed one billion but to get us to the next billion and really make our mark and impact on the financial services industry, Australia and the world.

40 One final comment, I'm aware of a letter that was sent by one of our shareholders Mr Pender to some shareholders, I do not know to whom this letter was sent. Mr Pender did not advise the company as to who was sent the letter. He did not send a copy to me or any of the directors and he did not give the company the opportunity to point out inaccuracies contained in the letter. The letter did contain errors of fact and also included defamatory statements.

We will be responding to Mr Pender, I would ask shareholders who would like to see a copy of that response to contact me. I would now like to hand over to our managing director and CEO Phil Vernon who will go through some of the key initiatives and results in more detail. Thank you.

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MR VERNON: Thank you Steve and good morning every body. Gives me great pleasure to be standing here and reporting to you on our performance for the past year. Australian Ethical we've been on a journey for the last five years improving every aspect of the business and 2014 has been the year when all of that came to fruition and everything really worked together to deliver results. Our new business is well above industry averages. Our investment performance has beaten mainstream benchmarks. Our people continue to be highly engaged and our operations are increasing in their efficiency and productivity. We're almost at a billion dollars as Steve mentioned. Our profits are at record levels and our share prices doubled in the last 12 months. The profit increase of 139 per cent is something particularly to be proud of and the increase has been due to strong revenues off rapidly growing funds under management which we'll talk about in a minute whilst keeping our costs relatively steady.

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The funds under management, as Steve mentioned, 887 million were an increase over the previous year of 25 per cent and compared to the industry average of 15 per cent, so we're actually growing at far greater than the industry average. The increase of 180 million was made up roughly equally between market movements and net inflows as Steve mentioned and our fund continues to grow strongly and we're rapidly approaching the billion at the moment. Just a bit of a breakdown of the net inflow. So the net inflows were 92 million compared to two million for the previous year and they were split 78 million for our super product which is up from 18 million last year but most pleasingly our managed funds product which was negative, so outflows last year is 14 million for the last 12 months. Our superfund membership grew by almost 20 per cent last year compared to a static industry, that is the industry as a whole is virtually flat in terms of member growth.

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Another key part of our strategy on the superannuation side is to grow our employer base so particularly also pleased that we tripled the rate of new super employer clients signing up to use the superfund, showing that during the year we got the My Super licence and showing that that was actually a very important thing for us and I'll talk a little bit more about that in a minute. Just to talk about a few of the key areas in a little bit more detail. Our sales and marketing area and strategies are really humming and really working well. They've been extremely effective with a range of initiatives implemented over the past few years all coming together. Digital communications and social media strategy provides us with a low cost of acquisition which is important

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for a business with a limited budget such as ours. We've got extremely high client engagement through that and it's a very effective way of improving our reach. Our followers on social media have increased tenfold over the past 12 months from two and a half thousand to 25,000. That was as at June and there are now 30,000 so just continues to accelerate and our engagement levels which is actually a measure of how people are talking about you as a ratio to the likes on the various platforms remains extremely high by industry averages.

In recognition of the strategies around that, during the year we were awarded the inaugural social media award at the ASFA. ASFA is the Australian Superannuation Funds Association and so that's right across, not just sort of ethical space, that's right across the entire superannuation market, we won the social media award for that, which was fantastic. Also other improvements in the sales and marketing team in terms of improving our online join processes and our sales follow-ups have also added to the efficiency and effectiveness of our new business flows. On investment performance over the past few years have been continually strengthening the quality of our investment team and our investment processes and to support our mission of strong performance with best practice ethics.

We have, over the last 12 months consistently topped regular surveys in the industry, so a survey of managed funds published by Mercer in the past 12 months shows we've consolidated our position as a strong player amongst wealth management companies. Performance of our funds continues to be strong over the long term and most have performed in line with, or above the median fund in the relevant (indistinct) surveys. Our flagship fund, the smaller companies fund which recently celebrated it's 20<sup>th</sup> anniversary is ranked number one over seven years and number two over 10 years. So once again this isn't amongst ethical funds, this is amongst the funds the entire market. It's returned 10 per cent per annum on average over its 20 year history, far exceeding its benchmark index.

We were very pleased recently to win, for our international equities fund, was recently awarded the best international fund at the Australian Fund Manager Association awards night which is the first time an ethical fund has ever been awarded one of their prizes and it beat the likes of household names in the funds management industry which is the likes of Platinum and Perennial who are the runners up. It was a fantastic achievement, quite an amazing achievement. As I mentioned the profit increase has been a combination of revenue increases due to increasing funds, also efficiency, keeping our costs steady. So over the past few years we've made continual costs efficiency improvements allowing us in the future to scale funds under management without us having to increase staffing costs dramatically. This was really, really necessary. I've talked many times in the past about being in a very

competitive environment and that's not going to change. It's being driven by a whole lot of factors not the least of which is a brand new regulatory environment and I'll talk about fees in a minute but we do need to continually get our fees down and so getting – being efficient in the business is absolutely  
5 critical. So just as a measure of how efficiency has improved over the last few years. We now manage close to a billion dollars with 34 people whereas three years ago we managed 600 million with 50 people, so very rough measure but that sort of shows you the changes that have gone on in the business.

10 Staff engagement, we work really hard to provide a place to work that is fulfilling and rewarding for our employees and when we surveyed our employees again this year this was reflected in the extremely positive results. This year we've moved from an employee engagement survey conducted  
15 internally to an externally and independently run best practice survey with consulting firm AON Hewitt which has benchmarked Australian Ethical against the best employers in Australia and New Zealand. We're extremely pleased with the results being placed in the top quartile with an overall engagement score of 78 compared to Hewitt's best employers of 82. So we're very close to their best employers' average which his fantastic.

20 Just to talk about a couple of the – a number of the key initiatives in the business over the last 12 months. Talked about fee reductions. As I've said, I've reported many times in the past of the increased competitive environment but it does actually find its way in to the regulatory environment so if APRA,  
25 who is our superannuation regulator, there's new prudential standards this year that have very much a fee focus to them in terms of value to members. We have historically, for our balanced superfund, which is our My Super fund been expensive and we have been progressively getting our fees down over the last few years and this year on the 30 June, made quite a significant decision to  
30 reduce our fee, the administration fee on our superfund from 1.43 per cent to .83 per cent which is a reduction of 42 basis points.

So that's in recognition of the fact that we do need to become more competitive and that change has gotten us in to the pack but it's barely gotten us in to the  
35 pack so we do have a strategy of continuing that over the next few years but everything else that's happening with the business where we've got increasing funds under management, efficient cost structure should allow us to do that progressively without – and still give shareholders adequate returns – acceptable returns. As I mentioned – and I mentioned last year's AGM we  
40 received approval from APRA this year to offer a My Super product, so the My Super product allows us to accept employer super contributions where the employee has not made a choice of funds. Critical for our business, took a lot of effort and energy of the business and the team really need to congratulated for getting that across the line.

In terms of product launches, this year we launched the first – Australia’s first ethical fixed interest fund which was fantastic. The trust offers investors an opportunity to generate income from portfolio of ethical diversified interest bearing investments. It is the first ethically screen managed fund available to Australian retail investors that invest in longer term bonds. Whilst the initial uptake by investors has been a little bit slow, we are starting to see a steady stream of investment in to the fund including a recent \$400,000 investment from one particular individual which was very pleasing. During the year, as part of our broader digital communication strategy we purchased Ethical Investor which historically was a magazine but when we purchased it, it had become just a website. The publication has been a respected source of industry news and information for over 10 years. Since acquiring it, we’ve refreshed the website and newsletter, increased engagement with subscribers and built the subscriber base. Having the logic behind the strategy, having a non-branded or semi-branded channel for content is a merging marketing strategy that’s been implemented successfully by a number of leading financial services companies and is aimed at growing the awareness generally of ethical investing amongst socially conscious consumers.

During the year we also appointed Stuart Palmer as head of ethics. We have over the last 12 months continued to cement our position as the leader in ethical investment in Australia by continuing to maintain the highest ethical conviction in our investment selections, as well as taking strong stands and encouraging more ethical behaviour in the corporate and broader community. We consider it critical, given who we are, that we have in-house ethical expertise rather than rely on a full-outsourced model as we have to date and that led to Stuart’s appointment. Previously Stuart was the head of practice at St James Ethic Centre and prior to that he’s also been a partner in a law firm and worked in investment banking. So he has a background that gives him very practical application of ethics as well as commercial and market experience and the critical thinking required for the role.

As part of Stuart’s role, we continued to have a strong presence in our advocacy activities and the sustained growth in our businesses allowed us to have great – increasing influence over companies that we invest in through the advocacy activities and aim to influence the way that they did business. In the past year we’ve been involved in activities such as engaging the Santos on coal seam gas, advocating against lend leases involvement in the Avid Point coal terminal and divesting from petrotherm. We’re also currently engaging with the big four Australian banks about improving their disclosure and governance in lending to the fossil fuel sector and participating in a global project involving major domestic and international institutional investors and lenders to develop global guidelines for the reporting of greenhouse gas emissions



intensity of their lending investment activities.

5 Just wanted to talk a little bit about industry rewards and recognition, we  
continue to be recognised in the marketplace for the high ethical conviction  
that we have amongst our peers and two awards during the year, or two  
outcomes during the year are worthy of highlighting. One is during the year  
we were awarded B Corp status. Now for people that don't know what a  
B Corp which is probably – possibly most people in the room, there's a  
growing global movement of things called B Corporations and B Corporations  
10 are effectively corporations that recognise that companies are there for the  
social good not just for profit maximisation, that's the essence of what they are.  
They've got two elements to them, one is a rating process where they'll rate  
companies according to their social and environmental credentials and that's  
what we've just achieved. So we were awarded a very high rating under the  
15 B Corp rating system and were the first listed company in Australia and one of  
only a handful globally to be awarded that. So certification is evidence of  
meeting high standards of social environmental and governance performance  
across the entire business not just our investing activities and so that was a  
great outcome.

20 I guess another benefit of being part of the B Corp community is just another  
extension of our ability to have influence to encourage better business  
behaviour and we've been actively involved in growing the network of the  
B Corp community and encouraging businesses to have themselves certified.  
25 Another aspect though to the B Corp movement is that in the US they've  
actually created a separate legal structure which is challenging the current  
business model and explicitly recognises the social purpose of the company in  
law and protects directors for pursuing its social purpose over profit  
maximisation. So as part of the B Corp community in Australia they're  
30 starting effectively a brains trust or a think tank to explore what needs to be  
done in Australia and the applicability of that which we will be heavily  
involved in which is terrific.

35 Then finally, another award that we received during the year, we continue to be  
recognised by our peers in both the superannuation industry and the  
sustainability industry and in addition to the awards that I mentioned before we  
received awards from respective not profit, the Banksia Foundation for  
Leading in Sustainabilities, Setting the Standard for Small and Medium  
Businesses award and from Green Lifestyle Magazine who recognised us for  
40 sustainable large business.

So moving forward, just discussion about what's going on in the external  
environment. We've got a very solid business, as we've been working on over  
the last few years. There's probably two key things in the external

environment that continue to take a lot of our attention. One is regulatory change, so as I've mentioned many times before, the regulatory regime in Australia continues to evolve and the superannuation landscape in particular has become even more stringent with the commencement on 1 July this year of the new prudential standards. These were the most significant changes to financial services in many decades and have significantly increased the responsibilities of trustees of superfunds and the regulatory oversight by APRA. This has increased significantly the management time and resources dedicated to governance in Australian Ethical and we've invested in our risk and compliance resources to meet and hopefully exceed the increased requirements.

The other big thing to talk about in terms of the external environment has been the rapid growth of the divestment movement. This has had a number of impacts we've actively engaged with it but it's also led to then one factor, there's been many factors but it's been one factor that's led to our growth as members recognise where their funds are invested with other funds and switch to low carbon exposed funds such as ours. Many funds have revised their approach to investing in fossil fuels and there is considerable confusion in the marketplace regarding the definitions. This has also led us to often be questioned when we might go fossil fuel free. So our response to this is as follows:

We are already far ahead in decarbonising our portfolio than the rest of the market. For example, and this is illustrated in our sustainability report on page 34, our Australian company investments have a carbon footprint 73 per cent lower than the ASX 200 as assessed by Trucost which is an international leader in carbon footprint analysis and made us the second and third lowest carbon exposed superfund in a survey that Trucost did in 2011. We consider ourselves leaders in the field and the fact that we are not labelling our investments as fossil fuel free does not mean that we are not in the vanguard of responding to climate change emergency. Such definitions don't take account of the portfolio as a whole or the positive impacts of other sectors in which we are heavily invested, more so than other funds, such as enabling technologies in energy efficiency and waste recycling.

Overall we are far in advance of any credible alternative. From this low base we are committed to decarbonising the remainder of our portfolio within a timeframe consistent with addressing global warming and to encourage and work with the global investment community to do the same. Two recent initiatives will launch which will be supporting in relation to this. The Montreal pledge which is a pledge by institutional investors to disclose the carbon footprint of their portfolio and the portfolio decarbonisation coalition. A coalition of global institutional investors agreeing to work together to

decarbonise their portfolios. All of this has obvious investment implications and needs to be done in the context of our obligations under the superannuation legislative regime and we will report our progress in our annual sustainability report or as otherwise appropriate.

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In conclusion, it's been a fantastic year for Australian Ethical with improvements made across the business over the past few years all paying dividends together. I'd really like to thank and congratulate our people for all their efforts and achievements over the course of the year. We've had a fantastic – we have a fantastic and highly motivated team and they all deserve to be proud of what we've achieved as a company. I'd also like to thank Steve and the board, including the superannuation board, who the other two members aren't here today for their efforts and supporters in what is a continually challenging, regulatory and external environment. Moving forward we're exploring opportunities to evolve the business to be a broader based ethical wealth management company and further strengthening our position as a leader in this space. I'm looking forward to the company - the coming year with excitement. Thank you.

20 Just before I finish, I actually want to just make one other comment and that is in relation to the letter that Howard Pender circulated to shareholders, or some shareholders. As Steve said, we don't know who he sent it to. The letter that he sent around to be frank, was absolutely disgraceful and continues a prolonged campaign of harassment that a number of us have been enduring in this company over the past three years. The campaign has been incredibly damaging to the company in terms of time, distraction and the personal stress that some of us have had to endure. I continue to be amazed at how someone who associates himself with an ethical investment company continues to lie and defame as a matter of routine.

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One particular aspect of his last letter and of the past three years, just really seriously angers me, and that is his victimisation of Tom May. What he said about Tom in the recent letter is false, it's a lie. The votes he was referring to a whole lot of situations regarding voting over the last couple of years. The votes that were excluded and they impacted on him and people associated with him, were done on legal advice or decided upon by an independent scrutineer. Tom was simply doing his job. Targeting an officer of a company in the way that he has done just because he doesn't like the outcome and the outcome is detrimental to him, is absolutely outrageous from a corporate governance point of view and anyone that cares about corporate governance or common decency to be quite frank, should be appalled by behaviour such as this. And for the record, for those shareholders in the room, and I know that there has been, that have read it, for the record, Tom is the hardest working, most diligent person I know with the highest integrity which is more than I can say for other people.

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And shareholders should consider themselves lucky to have him in the role.

Howard Pender, by his actions not only appears to consider himself above independent judgment but through his constant defaming, appears to consider himself above the law. He seems to think that people's reputations, company process and laws are simply playthings to feed his own ego and sense of self worth. I'm formally asking, and this will be followed up in writing, but I want a retraction of his recent letter. I want an apology to me, to Tom May, to the previous directors that he's defamed and to the company that he's damaged over the last three years by his actions. And to be quite frank, I want a thank you for my efforts in improving the performance of this company since I've been here which from almost certain oblivion to be quite frank and I could go over the reasons for that and doubling the value of his investment in the last 12 months. Thank you. If any shareholder would like to talk to me in more detail about it, I'm happy to.

MR GIBBS: Thank you Phil. At this stage I'm also going to deal with the report on the status of employees in accordance with clause 2.2 of the company's constitution, the directors are required to report to shareholders at the AGM on the pursuance of clause 2.1(a) in the constitution being "the development of workers participation in the ownership and control of their work organisations and places" and matters generally related to the status of employees. Reporting on the status of employees is contained in the sustainability report that was released to the ASX on the 29 September 2014 and was addressed by our managing director in his presentation. So I now ask for any questions or comments about – sorry, questions to myself or the managing director or questions or comments about the report on the status of employees. Are there any such questions or comments? I should say at this point that we did receive a small number of shareholder questions that were filed with us prior to the meeting. They will be responded to individually as they dealt with issues too detailed for this meeting or issues that are already in publicly disclosed material. I'm not going to go through each one of those today but of course any shareholder who raised a question will receive an answer. So there are no questions, so I think I'll proceed to the formal business of the meeting.

CAROLINE: Just questions on the status of employees?

MR GIBBS: No, either question.

CAROLINE: Because I've got – I've got a general question but I thought it was just that - - -

MR GIBBS: Sorry, no Caroline it was either questions to me or the managing

director following our addresses or to the status. If you've got a question or comment about a resolution we'll deal with those in a minute. Please. There's a roaming mic but I think the room's probably - - -

5 CAROLINE: I think it's small enough.

MR GIBBS: Yeah, I think it is too.

CAROLINE: (indistinct)

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MR GIBBS: Yeah, okay.

MALE SPEAKER: (indistinct) record.

15 MR GIBBS: Oh, that's the point, excellent.

CAROLINE: (indistinct) I'll use the mic.

20 MR GIBBS: Yeah, that's for recording purposes. Yeah, we would prefer that for recording purposes Caroline, thank you.

CAROLINE: Okay. Well hopefully this is more audible than me talking. Thank you very much Phil for touching on the issue of fossil fuels, it's an issue which I've had correspondence with a number of people from Australian  
25 Ethical and I want to bring it up again because I think it is really – you know, it's the thing that I'm most concerned about in my personal life and Australian Ethical is a company that should be a leader in this. Phil, you said when should we divest? I think the answer probably was a few years ago, I mean the carbon dioxide in the air is already above the safe limit for keeping to two degrees, so  
30 I think it's fairly clear that whatever the time was, the time is not in the future, the time is some time in the past. You also talked about that Australian Ethical was a leader and I certainly agree that it has been and I'm very, very pleased and proud to have been part of a company being a leader but unfortunately Australian Ethical is no longer the leader in that space. As I imagine most  
35 people here are aware there is a new competitor Future Super and yes, I am a small shareholder in Future Super but I'm a vastly bigger shareholder in Australian Ethical and I don't think my interests are very conflicted in this regard. I would like to see Australian Ethical divest from fossil fuels for two reasons. First main one, it is the right thing to do ethically, it's the right thing  
40 to do for the planet, it's the right thing to do for the returns for the company. And secondly, I'd like Australian Ethical to continue to be the leading ethical fund and I think that while we're still investing in fossil fuels we actually don't have that position any more.

MR GIBBS: Any comment Phil?

MR VERNON: Thanks Caroline. How long have we got? I disagree that we're not the leader, we're still a leader. You can say that it's easy to say  
5 you're fossil fuel free when you've basically got cash, okay. A couple of things in terms of our position, so totally agree with you, we're already at dangerous carbon levels. Whenever we look at the ethical charter we consider positives and negatives. We've got to consider the charter as a whole and so quite obviously the carbon aspect of – sorry, just for people that aren't aware,  
10 so our position in fossil fuels at the moment is that we're out of coal, we're out of oil, we're out of coal seam gas, we're only in gas, we sort of say indirectly through pipelines. So we're out of gas extraction production all of the front end stuff, we're just in pipelines. Our ethical reason for still supporting gas as a transitional fuel is that we believe in a 100 per cent clean energy economy,  
15 clean energy future but ethically for the world with renewables not being there today, getting out of them immediately is ethically bad because it creates a whole lot of social dislocation, disruption. Many, many studies agree with that, Greenpeace for example agree with that. So getting out of gas has a place to accelerate our ability to get off coal, which is the most urgent thing to do, keep  
20 energy needs going and allow the development of renewables because it's actually a very flexible power source, more flexible than coal. So it will actually facilitate the development of renewables. So our ethical position is we have a view to what the future should be but we can't ignore where we're at and so our whole approach is to say what is the most ethical path to get from  
25 where we are today to where we want to get in the future.

So that means support gas now because we could close down coal tomorrow, flip over to gas without social dislocation so that's an ethical thing to do. We can't get out of gas immediately; I'm talking as a world, without having social  
30 dislocation right. So that's the ethical basis for supporting gas today. The risk of that position is that obviously you're supporting the gas industry, the gas industry becomes the coal industry of tomorrow, the gas industry isn't behaving the way that all the models say that they should and so we're supportive of gas but we're supportive of gas on a very, very conditional basis.  
35 And we look at it on a stock-by-stock basis and we're constantly sort of tightening our criteria about how we look at it but – so that's the ethical position for why we're currently supportive of gas. Why I don't believe in the whole sort of get out of fossil fuel free type tag line, which we see as a bit of a tag line, is that it's fairly clumsy as a definition. It's one sector and as I said  
40 before it ignores the hugely positive aspects of the rest of the portfolio. What we're more interested in and what everybody should care about is decarbonising the economy as a whole and decarbonising it within an acceptable timeframe.

So for example, pick a year, say 2050, a lot of the models that we look at say that provided that everything goes right, and that's a big if, but provided that everything goes right, if we decarbonise by 2050 we'll still remain under – in an acceptable limit under two degrees. So everybody effectively, the concept is that everybody should just nominate a target by a particular date and commit to decarbonising either their businesses, or if they're countries, their country, and if they're funds, they're funds. Now that's the concept we're exploring. As I said in my talk, it has obvious investment implications. There's a lot of – that's very simplistic, there's a lot of complexity in that concept and so part of the reason that we signed up to these international portfolio decarbonisation coalition for example, is that they're basically talking about exactly the same concept but recognising the complexities and are committed to working through that to do that. So anyway that's the basis for it. Yes.

15 MS O'CONNOR: Without going in to details - - -

MR GIBBS: Yes, thank you.

20 MS O'CONNOR: Without going in to details of the question, sorry the answers to the questions that you received from shareholders about employees, is it possible that you could read the questions without going in to the answers?

MR GIBBS: They might actually - - -

25 MS O'CONNOR: Without sort of compromising the wishes of the people that wrote the questions.

MR GIBBS: Did you bring - - -

30 MR MAY: I'm sorry I actually don't have them with me.

MS O'CONNOR: Mm'hm.

35 MR MAY: I'm terribly sorry.

MR GIBBS: Can you remember – they weren't – if I gave the impression they were about employees that's the wrong impression, they were general questions.

40 MS O'CONNOR: General questions about?

MR GIBBS: About Tom? I haven't seen them to be frank.

MR MAY: Remuneration and the director feed - - -

MS O'CONNOR: Remuneration.

5 MR GIBBS: The remuneration report and the director feed pool which is one of the resolutions on the agenda.

MR MAY: And sorry, and the details for particular investment.

10 MS O'CONNOR: Okay. So - - -

MR MAY: Whether we're in a particular investment opportunity.

MS O'CONNOR: That's all I needed to know, thank you.

15 MR GIBBS: Thank you. There was another question? Eric? Okay. Sorry, you go. No, you go.

SPEAKER: You go first.

20 KAM: Thanks a lot for addressing lots of my questions already, my name's Kam, maybe that's what I should start with. I do have a question about the fees, so congratulations on running such a lean operation and being able to cut down the costs significantly to 1.87 per cent. I had a look at the APRA report from June this year and it still seems to be relatively high comparing to the  
25 industry in the top 10 per cent. So my question is what can we do to reduce the fees to make sure that we don't deter people from investing ethically?

MR GIBBS: I'll ask the managing director.

30 MR VERNON: The shareholders could hold hands and agree not to have profits for the next few years. Seriously, I meant that's the impact, so what we're trying to do is manage it down so that we can do it still giving shareholders an acceptable – but effectively a trade off between superannuation members and shareholder returns. That's effectively what it is and growth  
35 obviously helps the ability to do that. So we do have a strategy over the next few years to progressively get them down.

MR GIBBS: Yeah, I was just going to say the matter has been the subject of a lot of discussion at board level and we understand where we sit competitively  
40 and the board is committed to continue to reduce those fees in a staged way, such that we can continue to deliver to shareholders but we can continue to become more competitive. And so subject to performance and results, you can expect to see reductions in fees going forward. We're not going to announce a timetable or quantum because we need to review that but we have a process in



place to formally look at that every six months. Thank you for the question.

KAM: Thank you.

5 MR GIBBS: Eric?

ERIC: Hi. I think I'll start by congratulating the board and company on an incredible performance. I think that's actually truly astonishing.

10 MR GIBBS: Thank you.

ERIC: Over the past year. Mine's a follow up question to Caroline's, I have further questions when we get to the - - -

15 MR GIBBS: Sure for the resolutions, I suspected so.

ERIC: Yes. There's some – and I think I mentioned this to you directly as well, I think there's some studies saying that gas is actually not actually a transitional fuel and actually can crowd up renewables. The other question  
20 I've got for you is if you use that argument about going carbon free, what then should we just suggest going totally nuclear as an example. Some people propose.

MR VERNON: Yes. So - - -  
25

MR GIBBS: Phil.

MR VERNON: Yes, sorry.

30 MR GIBBS: It's all right. You go for it.

MR VERNON: I was going to mention the nuclear thing because there's a lot of – every couple of weeks another fund comes - - -

35 ERIC: I meant that rhetorically rather than - - -

MR VERNON: No, but one of the funds did come out with an announcement saying they're going fossil fuel free but by the way they're lifting their screen on nuclear. Whereas we're zero tolerance nuclear and that won't change  
40 because we sort of have a philosophy of why create one problem to solve another and there's an argument that there's just as much risk with nuclear proliferation to the world than climate risk and we can have this debate constantly but we'll find ourselves solving the climate crisis and then wonder why suddenly some rogue state's got nuclear capability. So ethically that's not

something that we want to sort of go near. I forgot the first half of your question.

MR GIBBS: Gas not being transitional.

5

MR VERNON: Yeah, look there's arguments on either side and totally agree and I'm very sensitive to – that's what I was saying that if you support the industry, what do you do about the fact that the industry might not behave and one of the ways that they might not behave is creating out the development of renewals. So are they actually a friend or foe of renewables is a question that we constantly ask ourselves. So I guess, where we're at today is we're – it's conditional support of gas and it's – and we're working toward this concept of how do we progressively decarbonise, which is obviously going to get ourselves out of gas progressively. But what you don't want to do is cut off your nose to spite your face because a lot of the gas companies, you'll find that gas – companies that might be defined as gas companies also have hydro and they might have big stakes in renewables development and so forth as well. So you've got to be very, very careful about how you make these sort of broad application of definitions. So yeah.

15  
20

ERIC: I've actually argued - - -

MR VERNON: I agree with you and we're not in them. Yeah, totally agree. They're good examples of once the political wind changed they started arguing against the (indistinct) and advocating against the renewables is one behavioural issue of the companies that we invest in that we keep our eye on. Yeah.

25

MR GIBBS: Thank you. More questions. Trevor?

30

TREVOR: Thank you. Trevor Lee. It's about the acquisition of Ethical Investor as a magazine. I'm wanting to get a feel for whether it was done tactically to have a marketing edge, or whether it's an actual profit centre within the organisation? Perhaps with a view to an exit strategy and on selling? I think it's an unfortunate situation to – for the readers to know that it's most unlikely that there would ever be criticism of Aust Ethical in that magazine. We would like it to be generally believed that the absence of criticism is because of merit not because of ownership.

35

MR VERNON: I don't think Ethical Investor criticises anybody do they? I don't think they ever have. I don't think that's their purpose.

40

TREVOR: (indistinct)

MR VERNON: But look to be honest since we've acquired it, I haven't seen any – there's been absolutely no bias. To be quite frank, when Future Super opened, they were top and centre when all the guys are divesting, sorry guys are changing their – somebody comes out with another announcement that might attract flows from us or something that's been top and centre. So hopefully we've got absolute editorial independence. Ross Kendall effectively still controls the content. In terms of the long term strategy it was – is it a profit centre in its own right, no it's a bolt on. So we've got quite a marketing machine happening and Ethical Investor really sort of slotted in to that, in terms of capability and all that sort of thing. Ultimately where we want to take it, so initially it's really just an avenue to grow the space and so the input that we can offer and we have offered is we've cleaned it up. We've made the website better and hopefully we sort of influence content not in a negative way but in a quality way, in terms of improving the content with an aim to growing the sector. Ultimately though to be honest, I mean where we want to evolve as a company as Ethical Investor wealth manager, we sort of have visions of Ethical Investor being almost like the intelligent investor for the DIY ethical investor. We see it as potentially a source of information that the ethical investor, the do it yourself ethical investor could use as part of his investment process which is part of a long-term strategy of ours of trying to capture the DIY investor market. So there's a third of investable dollars out there that aren't going in to product and at the moment we're just a provider of a product. We want to be able to offer something to that other third. That's all.

25 MR GIBBS: Thank you. Are there any other questions? Please.

FEMALE SPEAKER: Where does Australian Ethical stand on a company called Momentum Energy?

30 MR VERNON: Momentum - - -

FEMALE SPEAKER: (indistinct)

MR VERNON: (indistinct)

35

MR GIBBS: Heard of it?

MALE SPEAKER: I'm not sure.

40 FEMALE SPEAKER: It's a Tasmanian energy company and I'm just – maybe it's not the appropriate time but I'm just seeking more information about them.

MR GIBBS: Okay. Can we – can we take that on notice and maybe David or

one of your team, you might communicate about that. Okay. Is that all right with you first? Thank you. Any further questions? Well thank you for those questions everyone. I'll now move to the formal business of the meeting. Just again quickly to explain, with the exception of motion 1, the following process will be followed with respect to each motion. I will read or the chair will read the motion being put to the meeting. I will not ask for movers or seconders. When it comes to items dealing with the election of directors, each candidate will be invited to speak briefly and to take questions from the floor. I will obviously follow the order in which the resolutions appear on the notice of meeting. As I mentioned before when the motion with respect to myself being elected as a director is considered, I will vacate the chair and ask Kate Greenhill, director to chair that part of the meeting.

In relation to the other items, I will open the floor to shareholders who wish to speak for or against the motion. Each speaker will be entitled to speak on the motion only once and only for a reasonable time. If you do speak, please indicate your status as a shareholder and whether you represent an organisation. When there are no further speakers we will move directly to the next resolution rather than voting because all the resolutions are going to a poll. All the polls will be conducted together and the procedures will be explained at the time by Boardroom. I will vote useable open proxies that I hold as chair in favour of motions 2, 3, 4, 5 and 6 and I will vote all useable open proxies that I hold as chair against motion 7. Resolution 1 – well, it's not resolution – agenda item 1, accounts and reports. No resolution is required. But I invite shareholders to comment or ask questions on the financial statements for the year ending the 30 June 2014 and the related director's report, director's declaration and auditor's report. Are there any questions or comments on those reports and financial statements please? Thank you.

I'll now hand the chair to Kate, Director Kate Greenhill. You can do it over there if you like. Do you want that?

KATE: The resolution is that Steven Gibbs, Director be elected as a director of the company. Steven was elected as director on the 22 November 2012 and under clause 11.2 of the constitution he will retire by rotation at conclusion of this AGM and being eligible to stand he offers himself for re-election. I'll first ask Steve if there was anything that he would like to say.

MR GIBBS: My summary of my background, bio is contained in the annual report and I won't take the time of the meeting in going over that. Thank you for your support as shareholders in the past on my initial election as director two years ago and I'm simply asking for your support again. Thank you.

KATE: Then I'll sort of take any questions that people may have with regards

to this resolution? No questions, then I will hand the chair role back to Steve.

MR GIBBS: Thank you Kate. Resolution 3 is the election of Tony Cole, that  
Tony Cole, Director be elected as a director of the company is the resolution.  
5 Tony was elected as a director on the 20 November 2013 and under clause 11.2  
of the constitution he will retire by rotation at the conclusion of this AGM and  
being eligible to stand he offers himself for a re-election. Before asking Tony  
to speak, shareholders might wonder why only one year on Tony is standing  
again for election. We are required by the constitution for at least one third of  
10 the directors to stand for election each year and Tony has volunteered to be one  
of the two, me being the oldest, longest serving director that was obvious.  
Tony has volunteered as the other one to stand for election this year. So it's  
not that anybody lacks confidence in Tony, it's just that he's decided to put his  
hand up to face the shareholders on this occasion. Tony would you like to say  
15 anything?

MR MAY: Thanks Steve. I won't say a lot. The main point of standing up  
was just so that you can ask me questions if you want to do so. Just the  
background – my background is in the documents but I just mention I've  
20 worked in Canberra for 26 years as a public servant. I trained as an economist  
and I joined the public service because I thought economic policy was the most  
important thing in terms of well-being of Australian people and I'm proud of  
the particularly the 10 years that I worked for the Hawke/Keating government  
and the economic reforms that were implemented during that period. In almost  
25 of which I was intimately involved. A sideline of that period was that I was at  
one point, seconded to special duties which anyone who's been a public  
servant knows is a phrase – that's a terrible phrase – one you really worry  
about. But in fact, it was an opportunity of a lifetime, it was an appointment to  
try to put greater pressure on South Africa to dump apartheid and become a  
30 normal, non-racial democracy and I did that on behalf of the Australian  
government and the British Commonwealth of Nations, if that's what it's still  
called. I'm really proud that Nelson Mandela actually attributed the work that  
Australia did, which was basically me, while I was on secondment, accelerate  
the change in South Africa and realised they had nowhere to go other than to  
35 liberalise.

Now I've had 26 years in the public service and then a career of about 17 years  
working with Mercer in investments and superannuation. Really I was trying  
to make sure in my role there that what we did with superannuation in  
40 government would actually work so try to make it work in the private sector.  
And I mention in particular that Mercer has had a responsible investment group  
way before any of its competitors and the chair of Mercer Investment  
Consulting was the main driver for that but I was his main lieutenant and that's  
something else that I'm proud of. So they're the – now I'm open for questions.

MR GIBBS: Thank you Tony. Are there any questions of Tony? Thanks Tony.

5 MR MAY: Thank you.

MR GIBBS: Resolution 4 remuneration of directors. The resolution is that for the purposes of ASX listing rule 10.17 the company reward persons who undertake the duties and responsibilities of being a non-executive director  
10 including attendance at meetings of the board of directors and board committees by approving payments in total of no more than \$360,000. Just a brief explanation of this resolution. I think all of you – well, I trust that all of you understand that is a listing rule requirement that the total amount paid to all  
15 directors as directors or as members of committees or as board members of subsidiaries must be within a pool limit that is set by shareholders. Currently the total amount paid to directors is very close to the previously set limit of \$240,000 which was set I believe in 2008.

MR VERNON: Possibly 10.

20

MR GIBBS: Possibly 10, sorry. Four years ago. The resolution seeks to increase that pool, it does not mean that directors will be paid up to that limit immediately and in fact it is not the director's intention to immediately increase payment to the non-executive directors up to that limit. There may well be a  
25 small increase subject to us getting advice. The advice we have at the moment is the directors are really paid in the – towards the bottom quartile of directors but the increase is to allow over time increases to be paid to directors and possibly for the appointment of additional directors as well. So that is the resolution. We did have one question that was filed with us, which seemed to  
30 think that what we were doing was increasing the individual pay of each director from \$240,000 to \$360,000. I can assure shareholders that's far from the case. So are there any questions or comments on this resolution? There being no questions or comments, I'll move to the next resolution.

35 Resolution 5, the resolution is that for the purpose of ASX listing rule 10.14 to enable the managing director to participate in the employee share incentive scheme and for all other purposes approval is given for the grant to Mr Phillip Vernon, CEO and Managing Director of deferred shares under the company's employee incentive scheme on the terms described in the explanatory notes.  
40 That's the resolution. Can I just – before opening this for questions or comments indicate that this is a listing rule requirement. The – any director may not participate in a share incentive scheme without shareholder approval. It does not mean that the managing director is the only employee who participates in the scheme. In fact, as detailed in the remuneration report, the

scheme that we have put in place beginning in this financial year, that's 14/15 will apply to all employees. Not on equal terms but all employees will have a percentage of their remuneration available to be paid as deferred shares subject to those employees being an employee with the company at the end of three  
5 years and subject to a performance hurdle of earnings per share growth exceeding five per cent, calculated cumulatively every six months over a three year period. We need to have this resolution on the agenda as I said, because we need shareholder approval under an ASX listing rule requirement. Are there any questions or comments? Eric?

10

ERIC: Does anyone else - - -

MR GIBBS: There may be some following yours, Eric, so why don't you go ahead?

15

ERIC: Okay. I'll start by saying that similar to Howard, I've written a letter as well and I've sent you a copy.

MR GIBBS: Yes, I thank you.

20

ERIC: If you consider it defamatory, let me know.

MR GIBBS: No, not at all. Not at all.

25

ERIC: Okay.

MR GIBBS: But there are some things in the letter Eric that we think you have not got completely correct.

30

ERIC: Probably.

MR GIBBS: But – and we certainly will be pointing – we'll be responding to those – to the issues that you raise.

35

ERIC: Okay, thank you. Okay, I'll address my questions to the board as a whole. The concept of deferred shares is one that I think is very unfair towards shareholders. Performance rights are fine, as far as I'm concerned. You have your targets, whatever the target is, you meet the target, you get the shares. Giving shares in advance allowing them – taking in effect – if I understand this  
40 correctly, you expense the right to (indistinct) deferred shares when they're issued, however in terms of deferred shares, the cash is taken away from the company, it's spent to the (indistinct) entire pool of the deferred shares. Now I'm not sure what - - -

MR VERNON: No, that's not right.

MR GIBBS: It's not exact – that's not exactly right.

5 ERIC: Okay.

MR GIBBS: So – but anyway, do you want to keep going or do you want me to respond as we go?

10 ERIC: Correct, yeah. Respond.

MR GIBBS: Okay. The deferred shares are not the same as a normal share. They are conditional on people remaining in employment. In terms of the – they're not – sorry, unlike performance rights which are expensed on creation, they're not actually performance rights expensed on creation, they're amortized over three years. The deferred shares – sorry?

MR VERNON: The performance rights are amortized over three years.

20 MR GIBBS: Yeah, the performance rights are amortized over three years, that's right. I'm just trying to find my - not there. Sorry. And what was your question about the characteristics of deferred shares sorry

ERIC: I think - I thought they were expensed and therefore the cash taken away from the company because you need to spend the money to buy the shares or issue the shares.

MR VERNON: Yeah, it's only one-half of the story though.

30 MR MAY: Yeah, those are right. The deferred shares are (indistinct) yeah, the deferred shares are expensed on the – when they're issued.

MR GIBBS: Yeah.

35 MR MAY: So – but the other part of the story is that they are tax – tax purposes as well so the expense is – as well - - -

MR GIBBS: (indistinct)

40 MR MAY: The other – I suppose the other point with deferred shares is that you are locking in cost of those shares on the day they're issued. So if (indistinct) issued the deferred shares (indistinct) deferred share payment was in place last year, those shares would have been issued at \$9.50. Now because the share price has increased so we've actually increased the expense on the



performance rights that are outstanding. So deferred shares does give you more certainty on the actual cost and give you a tax deduction.

5 MALE SPEAKER: (indistinct) performance rights.

MR MAY: (indistinct)

MR GIBBS: Yep. Keep going Eric sorry.

10 ERIC: Okay. So the concept of allowing people to vote when – before they actually hold the shares and own the shares I find a bit confusing to me. No offence to the - - -

15 MR GIBBS: No.

ERIC: - - - people who hold the shares. The other – the final comment as I've put in the letter, I don't know if earning the shares really is a great hurdle given the performance of the company on the last – the incredible performance of the company in the last few years. I mean you jump over that hurdle without even trying, so I don't quite understand.

20 MR GIBBS: Okay. Can I deal with the voting issue? The board understood when we took this decision that this could be controversial, that we grant voting rights on deferred shares before they're actually in the individual's hands. We made that decision because we believed it would create a position amongst employees of feeling more involved with the company, of actually promoting that section of the charter that talks about employee ownership and control. The number of shares won't be large – won't be large enough to influence any vote but we simply believe that it would provide an environment, sorry - - -

25 MALE SPEAKER: (indistinct) sorry?

30 MR GIBBS: Sorry?

35 MALE SPEAKER: What is the correct (indistinct)

MR VERNON: It will be somewhere around 1.7 - - -

40 MR GIBBS: Around 1.7 per cent.

MALE SPEAKER: (indistinct) those shares?

MR VERNON: Twelve months - - -

MALE SPEAKER: Is this for the managing director - - -

MR MAY: No.

5 MR GIBBS: No.

MR MAY: All staff.

10 MALE SPEAKER: (indistinct) sorry.

MR GIBBS: All staff.

MR MAY: All staff.

15 MALE SPEAKER: So the entire staff (indistinct) deferred shares instead of (indistinct)

MR MAY: Yeah (indistinct)

20 ERIC: (indistinct) say it's been issued - - -

MR MAY: Sorry that's – sorry Eric that 24,000 is a global number that's applicable for three years.

25 MR GIBBS: Three years, that's right.

MR MAY: It's not a target that we're going to issue 24,000 it's a maximum.

30 ERIC: So 17,000 times three in effect because it runs over three year (indistinct) closer to - - -

MR MAY: We can only (indistinct) it's not – the number of deferred shares or the expense on the - - -

35 ERIC: 1.7 - - -

MR MAY: (indistinct)

40 MR GIBBS: Yeah.

MR MAY: (indistinct) period.

MR GIBBS: Yeah.

MR MAY: If it's five per cent of the company, there's (indistinct) three years  
- - -

5 ERIC: Yeah, agreed. What my (indistinct)

MR GIBBS: Yeah. Well I don't think it is significant but nevertheless we  
still think we discussed this and we think that giving staff the right to vote with  
those shares better aligns those staff with the overall performance of the  
10 company, builds a better team atmosphere and gives people a feeling of being  
more in ownership and control. So that's - look we understand there's  
arguments we can have here but both ways. Both ways. That was the  
judgment of the board.

15 ERIC: Can I add another comment?

MR GIBBS: Yeah, please, it was one last question I wanted to get to but keep  
going.

20 ERIC: Yeah, sorry. Just on that comment, because the whole point of  
meeting the charter for employer or worker participation right, I think that  
actually referred to, if I understand it correctly, referred to workers as a whole,  
as a group - - -

25 MR GIBBS: Yeah.

ERIC: - - - not senior management having the vast majority of it. There's a  
bit of a disproportional sort of view here. I wouldn't mind checking it and  
seeing what people think.

30

MR GIBBS: Well, I mean I can't comment because I wasn't involved in the  
company when the charter was written - - -

ERIC: (indistinct) charter.

35

MR GIBBS: No, I - well I don't interpret the charter to say that it means that  
every employee gets exactly the same amount - - -

ERIC: Well not exactly but half the size to the managing director.

40

MR GIBBS: I mean people are - what do you do, do you give everybody - - -

ERIC: It's the managing director - - -

MR GIBBS: Well do you give everybody the same level of shares as the managing director or one of the portfolio managers, that means they're all equal, or do you go the other way and give everybody the same level as the lowest paid employee. I mean if you're going to be equally - - -

5

ERIC: What the charter is saying - - -

MR GIBBS: Mm.

10 ERIC: That may very well be what the charter is saying - - -

MR GIBBS: Well I don't interpret the charter to be saying that. We have people on different levels of remuneration and the number of shares that they are eligible subject to those criteria is reflective of their remuneration for the company.

15

ERIC: Can (indistinct) that one.

MR GIBBS: Well I'm not sure - - -

20

MR VERNON: Sorry, what's Caroline got to do - - -

MR GIBBS: Yeah, I'm not sure it - - -

25 CAROLINE: I don't qualify as an expert on it but - - -

MR GIBBS: No.

CAROLINE: Yeah, I would have expected – I think (indistinct) certainly what the (indistinct) is about. No doubt about that. But (indistinct) certainly in the past we envisaged this being a much more equitable (indistinct) I'm also slightly surprised at the comment (indistinct) shares. The ASX (indistinct) defines a shareholder (indistinct) five per cent (indistinct) and I understand over the three years it will be more than five per cent, so I think that (indistinct) would be much happier personally if it was a more equitable distribution and I'd make comment about performance (indistinct) being very – you expect that the ASX would continue (indistinct) currently have still the same superannuation laws, the (indistinct) fairly easily (indistinct)

35

40 MR GIBBS: Well let me come back to the – I'll deal with that hurdle now, the hurdle is EPS growth it's not just EPS, it's not just meeting like the old scheme a return on equity, it's a growth target. It's easy to say it will be easily met but the likelihood of it being met, for example in this financial year is quite low because we had such a high earnings per share last year, it's what we've

got to achieve, what's got to be achieved is somewhere between at least five and for anything to be granted, at least a five per cent growth above that and in the context of a reduction of our fees, the only way we'll achieve that is if there is incredibly good net inflows in to the company. Now if there are incredibly good net inflows in to the company then it's quite appropriate in the board's view, for the staff to be rewarded for that. They should be incentivised to try and make that happen and if it does happen they should be rewarded for it. They are not easy targets. EPS growth compounded, calculated six monthly over three years are not easy targets. Probably the old scheme which I had personally nothing to do with and none of the other directors did on a return on equity was much easier to achieve. Much easier to achieve that's why we've changed it.

ERIC: (indistinct)

MR GIBBS: I hope we actually do award all of those shares because it means the company will be doing incredibly well. That was the other thing, just to respond to you Caroline, the five per cent, it's only going to be five per cent if every employee that we have now is here in three years time and if we've had EPS growth of in excess of 10 per cent per year, compounded, calculated every six months. What a great result that would be.

MR MAY: And it wouldn't be one – it's not one (indistinct) it's a whole range - - -

CAROLINE: I do appreciate that.

MR MAY: - - - whereas when the ASX (indistinct) five per cent (indistinct) that's a single (indistinct)

CAROLINE: Sorry, I'm actually aware of that.

MR GIBBS: Thank you. Eric, have you got any further questions?

ERIC: No, sorry for this.

MR GIBBS: No, that's all right and we will respond to you in detail from your letter that you sent to some shareholders. Howard?

HOWARD: Steve, I (indistinct) mean I just struggle a bit to understand what's going on here, sorry. I struggled a bit to understand some of what's going on here. I just – perhaps it might be appropriate in a future year to talk to people about it a bit in advance.

MR GIBBS: Thanks Howard, I take note of that. Any other questions? This is the resolution about shareholder approval for our managing director to participate in the employee share scheme. The employee share scheme is actually a matter for directors and doesn't require shareholder approval but that's not said in an arrogant way, we do appreciate feedback and we'll continue to listen to and take in to account that feedback that we receive. If there are no further questions on the actual resolution, I'll move to the next resolution. Thank you. Next resolution is the adoption of the remuneration report. The resolution is that the remuneration report as set out in the annual report for the financial year ended 30 June 2014 be adopted. In 2013, the company recorded a first strike as it's known when 25 per cent of the votes were against the adoption of the remuneration report. If 25 per cent of the votes cast today are against this resolution, another strike will be recorded and the contingent spill motion will be required. Please note that as the outcome of resolution 6, the adoption of the remuneration report is not known at this point. We will conduct a poll for resolution of seven, even though it may not be required.

So firstly dealing with the adoption of the remuneration report, does anyone want to speak for or against, or ask any questions? We've probably covered the questions in the previous discussion I suspect. But that's not to – please not to try and dissuade you from asking any further questions. If there's no further questions, I will move to the resolution 7 which is the spill motion. The resolution is that as required by the Corporations Act, (a) a general meeting of the company members be held within 90 days of the date of the 2014 annual general meeting, commonly known as the spill meeting. Each of Mara Bun Kate Greenhill, Tony Cole and myself, assuming that Tony and I are re-elected today, cease to hold office immediately before the end of the spill meeting and resolutions to appoint persons to offices that will be vacated immediately before the end of the spill meeting will be put to the vote at the spill meeting.

Now as I say this resolution is contingent on the result of resolution 6. If the result on resolution 6 is that more than 25 per cent of the votes that are cast on that resolution, are cast against the adoption of the remuneration report then the spill motion resolution poll will be conducted, counted and declared. Anybody in the room want to say anything for or against the spill motion? That being the case, that ends the consideration of the formal motions of the meeting. I will now ask the returning officer to explain the poll procedures. Again, I urge you to listen carefully and if any doubt ask questions. We have in the past had situations where votes have been excluded because they've not been valid and we do not want this to happen again, so please listen carefully to avoid this happening again. As mentioned before, after the votes have been counted, the results of the poll will be released to the ASX and will be displayed on the company's website as soon as practicable. Returning officer would you please

explain.

RETURNING OFFICER: Thank you. The persons entitled to vote on this poll are all shareholders, representatives and attorneys of members and proxy holders who all hold blue voting cards. If you are attending the meeting in more than one of these capacities for example as a shareholder and a proxy holder, you should have been issued with multiple voting cards. Details on the reverse of the card shows the resolutions being put to the meeting. So for filling out the voting cards, if you're a proxy holder and have only directed votes for or against as shown on the summary of votes attached to your voting card, all you need to do is print your name and sign the blue voting card and lodge it in a ballot box. By completing the blue voting card when instructed to vote in a particular manner, you are deemed to have voted in accordance with those instructions.

If you are a proxy holder with open votes, as shown in the summary of votes, you need to mark a box beside the motion to indicate how you wish to cast your open votes. It's important for proxy holders to note for their votes to be counted in this poll, you must submit your voting card. For shareholders, you too have the same blue voting card. You need to mark a box beside the motion to each motion to indicate how you wish to cast your vote. A tick or a cross is acceptable. Please ensure that you print your name also in that space there as indicated and sign the voting card. Please note that unsigned voting cards will not be valid. If you require any assistance, just ask me. When you've finished completing the cards, my colleague Terry will go around and collect the cards. Thanks. Yes.

HOWARD: (indistinct) my cards are (indistinct)

MR GIBBS: Good question. Sorry?

RETURNING OFFICER: Basically if you're abstaining I wouldn't even - - -

MALE SPEAKER: No, I want to formally abstain.

MR GIBBS: Yeah.

RETURNING OFFICER: You want to formally abstain.

MR GIBBS: Yeah. It's a good point Howard.

HOWARD: I think it's appropriate that the cards have an abstain (indistinct)

MR GIBBS: Yeah, should. They should.

RETURNING OFFICER: I think legally because you have it on a proxy form but legally I don't think you need it on a poll declaration.

5 MR VERNON: Just wouldn't vote that - - -

MR GIBBS: James can you help us here.

RETURNING OFFICER: Yes.

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JAMES: You're not required to formally state that but I appreciate that shareholders may have a (indistinct) that they want to vote - - -

15 RETURNING OFFICER: Well, that's okay. Do you want to mark – just create another column - - -

MR GIBBS: Yes. Howard, I suggest - - -

RETURNING OFFICER: - - - called abstain - - -

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MR GIBBS: I suggest you write abstain and then - - -

HOWARD: Okay. As long as I get an undertaking from you, Steve that it will be considered as a valid vote given the problems we've had - - -

25

MR GIBBS: Yes. You have - - -

HOWARD: (indistinct)

30 MR GIBBS: Yes.

HOWARD: - - - (indistinct) varied from year to year on how to cast a valid vote at this meeting.

35 MR GIBBS: If you write abstain, I know there's not much room but if you write abstain on the far right corner and mark which resolutions you want to formally, all or which you want to formally abstain, then I will give you the undertaking it will be recorded as a valid vote.

40 HOWARD: Okay, thank you.

MR GIBBS: Thank you.

RETURNING OFFICER: Thank you.



MR GIBBS: Okay, well so we'll now collect the voting cards. If you want – we won't close the poll until everybody's had the opportunity to complete their cards and to place them in the ballot box. We do need to fix that for next year.

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JAMES: (indistinct) yes.

MR GIBBS: Legally you would (indistinct) some shareholders would want to formally abstain.

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JAMES: Understand.

MALE SPEAKER: (indistinct)

15 JAMES: I'll ask (indistinct)

MR GIBBS: Is there anybody who still has a voting card that hasn't voted? Howard? Trevor? Is there any more voting – outstanding voting cards? There being no – I've put mine in. There being no more outstanding voting cards - - -

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RETURNING OFFICER: (indistinct)

MR GIBBS: Yeah, I've put mine – put the chair's – it's been put in. Thank you. I now declare the polls closed and there being no further business, I at 11.29 precisely Mr Company Secretary, I declare the 2014 annual general meeting closed. Please join us for light refreshments which are just outside the meeting room. Thank you.

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**ADJOURNED**

**[11.29 AM]**