

Corporate Governance Statement

We want to be the financial services company of choice for conscious consumers.

At Australian Ethical Investment Limited (Company) we believe that high standards of corporate governance benefit all of our stakeholders including our clients, employees, suppliers, regulators, shareholders and the communities in which we operate.

We expect our Directors and employees to act ethically and responsibly at all times and believe that this, combined with our policies and practices in governance, will result in the best outcomes for all of our stakeholders.

The governance processes and practices adopted by Australian Ethical take into account the principles and recommendations contained in the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations* (3rd edition) (ASX Recommendations). We have followed the ASX Recommendations throughout the course of the 2018 financial year.

A copy of the policies and other documents referred to in this report are also available from the following link: <https://www.australianethical.com.au/shareholders/corporate-governance/>.

This Corporate Governance Statement is accurate and up to date at 15 November 2018 and has been approved by the Board.

Principle 1 – Lay solid foundations for management and oversight

Recommendation 1.1

THE COMPANY SHOULD DISCLOSE THE ROLES AND RESPONSIBILITIES OF THE BOARD AND MANAGEMENT

Australian Ethical is governed by a Board of Directors appointed by shareholders. The Board has three committees: The first two are the Audit, Compliance & Risk Committee and the People, Remuneration & Nominations Committee. The third committee, the Due Diligence Committee, was established in June 2018 to oversee the processes underlying the preparation of product disclosure documentation. These committees are delegated with the necessary authority to carry out their functions. The **Board Committee Charters** for the Audit, Compliance & Risk Committee and the People, Remuneration & Nominations Committee are available on our website.

Our Constitution requires us to operate in a way that promotes the Australian Ethical Charter. The Charter requires consideration of economic, environmental and social impacts when making investments and managing the Company.

The Company has formalised the functions reserved to the Board and those delegated to Management.

The Managing Director is delegated with the necessary authority to manage Australian Ethical other than those responsibilities reserved for the Board and delegations (general or specific) made by the Board to the Chair, Board Committees, Directors or other senior executives.

The division of roles and responsibilities between the Board, the committees and the Managing Director is reviewed annually to ensure the division of responsibility remains appropriate.

Recommendation 1.2

FIT AND PROPER CHECKS FOR DIRECTORS

Candidates nominated for election as Directors are subject to competency and probity assessments. As part of this process, candidates are asked to provide details of their other commitments. Candidates are also given an indication of the time involved should they be successful and asked to specifically acknowledge that they will have sufficient time to fulfil their responsibilities as a Director of Australian Ethical.

The Company endeavours to ensure that sufficient information is provided to shareholders to enable them to make an informed decision on whether or not to elect or re-elect a candidate as Director. This information is provided in the Notice of Meeting issued in relation to the meeting at which the vote will occur.

Recommendation 1.3

TERMS OF APPOINTMENT

In the appointment process each Director is asked to sign a letter of appointment and each senior executive signs an employment contract, setting out the terms, conditions, expectations and entitlements of the appointment.

INDEPENDENT LEGAL AND OTHER PROFESSIONAL ADVICE

Directors have the right to seek independent legal and other professional advice at Australian Ethical's expense in order to fulfil their duties and responsibilities as Directors, subject to the following:

- they must have the prior approval of the Chair to seek the specific independent legal and other professional advice;
- they must ensure the costs are reasonable; and
- any advice received must be made available to the rest of the Board unless either the Chair or the Board agree that the rest of the Board does not need to see the advice.

Recommendation 1.4

COMPANY SECRETARY

We have appointed two Company Secretaries who are both directly accountable to the Board, through the Chair, on all matters associated with the proper functioning of the Board. All Directors are able to communicate directly with them.

Recommendation 1.5

DIVERSITY AND INCLUSION

The Board has charged the People, Remuneration & Nominations Committee with responsibility for setting measurable objectives for achieving gender diversity and annually reviewing these objectives and the Company's progress towards achieving them.

The Company has a Diversity Policy which sets out its overarching approach to diversity. Our approach is to not only avoid discrimination but to proactively foster inclusiveness and address structural inequities that prevent our workplace being reflective of society. The Policy is available on our website.

The Company's measurable objectives and its progress towards them were reviewed by the People, Remuneration & Nominations Committee during the reporting period. Our **Annual Report 2018 and Sustainability Report 2018** contain detailed reporting in relation to diversity among Directors and employees. These reports are available on our website.

Recommendation 1.6

EVALUATING THE PERFORMANCE OF THE BOARD, THE COMMITTEES AND DIRECTORS

The Board undertook a formal externally facilitated evaluation of its performance during the reporting period. This review covered both individual director performance and the effectiveness of the Board as a whole. The findings of the review are already being implemented.

Recommendation 1.7

EVALUATING THE PERFORMANCE OF SENIOR EXECUTIVES

Executive performance is evaluated in accordance with our performance review guidelines. The Chair conducts the Managing Director's performance review. The Managing Director conducts the performance reviews of the other Senior Executives.

An evaluation of the Managing Director and each of the Senior Executives was undertaken in the reporting period.

Principle 2 – Structure the Board to add value

Recommendation 2.1

THE BOARD SHOULD ESTABLISH AN APPROPRIATELY STRUCTURED NOMINATION COMMITTEE

The Board has a People, Remuneration & Nominations (PRN) Committee comprising of the Chair and four Independent Non-Executive Directors. The qualifications of the members of the PRN Committee are set out in the **Annual Report 2018**, as are the number of meetings and attendance at those meetings during the reporting period.

From a nominations perspective, the PRN Committee is responsible for the following matters:

- a. assessing the necessary and desirable competencies of prospective Directors;
- b. ensuring that the current composition of the Board demonstrates an appropriate mix of competencies to allow the Board to discharge its responsibilities effectively;
- c. ensuring that Directors have access to appropriate continuing education which updates and enhances their skills and knowledge;
- d. developing and implementing a process for evaluating the performance of Group Boards, Committees and individual Directors and ensuring that regular Board, Committee and individual Director performance reviews are undertaken;
- e. monitoring the length of service of current Directors and ensuring that the Board has a succession plan to ensure that an appropriate balance of skills, experience and expertise is maintained on the Board at all times and maintaining a Board Skills Matrix;
- f. making recommendations in relation to the appointment, re-election and retirement of Directors and ensuring that appropriate checks are undertaken before recommending the appointment of a person as a Director;
- g. assessing on at least an annual basis the independence of existing Directors and in the case of a new director, assessing their independence at the time of their appointment; and
- h. seeking assurance from Management that:
 - i. prospective Directors meet the minimum fit and proper requirements; and
 - ii. there is an induction program in place and that new Directors undertake the program within three months of appointment.

The **PRN Committee Charter** is available on our website.

Recommendation 2.2

THE BOARD SHOULD ESTABLISH AND DISCLOSE A BOARD SKILLS MATRIX ON THE MIX OF SKILLS AND DIVERSITY OF BOARD MEMBERS

Our Board has a broad range of financial knowledge and experience relevant to overseeing the business of an ethical investment and superannuation company and collectively has appropriate skills to perform its roles during the reporting period.

A summary of the skills and experience of the Directors is included below:

Board Skill	Number out of 6 Directors
Leadership	6
Governance	6
Financial	6
Legal	3
Strategy	6

Risk/Audit	5
Regulatory/Compliance	6
Insurance	3
Remuneration	6
Talent and HR	5
Information Technology	2
Industry	6
Directors' Duties	6
Managed Investment Schemes Operation	3
Superannuation Fund Administration	2
Investment Governance	4
Custody	3
Managing Outsourced Service Providers	4
Unit Pricing	2
Marketing	3
Investment Management	4

More details regarding the Directors' qualifications, special responsibilities, skills and expertise is available on our website.

Recommendation 2.3

THE COMPANY SHOULD DISCLOSE WHETHER ITS DIRECTORS ARE INDEPENDENT

A Director is an Independent Director if they are a Non-Executive Director and:

- a. are not a substantial shareholder (as defined in the *Corporations Act 2001*) or an officer of, or otherwise associated directly with, a substantial shareholder of the Company;
- b. within the last three years has not been employed in an executive capacity by the Company or another group member, or been a Director after ceasing to hold any such employment;
- c. has not been a principal or employee of a material professional adviser or a material consultant to the Company or another Group member, or an employee materially associated with the service provided in the last three years;
- d. is not a material supplier or customer of the Company or another Group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
- e. has no material contractual relationship with the Company or another Group member other than as a director of the Company; and
- f. is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company.

The classification of Directors who held office during the reporting period is set out below:

Director	Status	
Stephen Gibbs (Chair)	Independent Non-Executive Director	Appointed by the Board on 25 July 2012 and appointed Chair on 1 March 2013. Re-elected at the 2018 AGM.
Mara Bun	Independent Non-Executive Director	Appointed by the Board on 4 February 2013 and re-elected at the 2017 AGM.
Kate Greenhill	Independent Non-Executive Director	Appointed by the Board on 22 February 2013 and re-elected at the 2018 AGM.
Michael Monaghan	Independent Non-Executive Director	Appointed by the Board on 22 September 2018 and elected at the 2018 AGM.
Julie Orr	Non-Independent Non-Executive Director	Appointed by the Board on 20 February 2018 and elected at the 2018 AGM. Ms Orr is a member of the senior management team of IOOF Limited which is a substantial shareholder

Director	Status	
		through one of its subsidiary entities.
Phillip Vernon	Executive Director	Mr Vernon is the Managing Director and was appointed as a director on 26 July 2010.

There were no changes to the Independent Non-Executive Directors' interests, positions, associations or relationships that bear on their independence during the reporting period.

Recommendation 2.4

THE MAJORITY OF THE BOARD SHOULD BE COMPRISED OF INDEPENDENT DIRECTORS

The Board is comprised of a majority of Independent Directors which is consistent with the ASX Principles and Recommendations. The Board intends to keep this balance as it represents best practice corporate governance and alignment with the Australian Ethical Charter.

Recommendation 2.5

THE CHAIR SHOULD BE AN INDEPENDENT DIRECTOR

Under our Constitution, the Board elects a Chair from the Non-Executive Directors. This means that the roles of Chairman and Chief Executive Officer are not exercised by the same individual.

The role of Chair is held by Stephen Gibbs who is considered to be an Independent Non-Executive Director.

Recommendation 2.6

ESTABLISH A PROGRAM FOR INDUCTING NEW DIRECTORS AND PROVIDE APPROPRIATE PROFESSIONAL DEVELOPMENT OPPORTUNITIES FOR DIRECTORS

New Directors complete an induction on appointment. The program is created for each individual and reflects their knowledge of the Company and the markets in which the Company operates.

The PRN Committee is responsible for ensuring that the Board has the skills, knowledge and familiarity with the Company and its operating environment to be able to fulfil its role effectively. Where gaps are identified, the PRN Committee identifies the training and professional development required to fill those gaps.

The time in office, skills, experience and expertise of each Director during the reporting period is set out in the **Directors' Report**.

Principle 3 – Act ethically and responsibly

We are an ethical investment company and we manage money in accordance with the **Australian Ethical Charter**. The Charter is contained within the **Company's Constitution** and informs all aspects of the Company's operations. The Charter is available on our website.

Recommendation 3.1

COMPANIES SHOULD ESTABLISH A CODE OF CONDUCT

We have a **Code of Conduct** that outlines what we regard as acceptable business practices for Directors and employees. The Code of Conduct is addressed in induction training for new Directors and employees and is promoted to current Directors and employees during corporate and personal development sessions.

CONFLICTS MANAGEMENT

We have a Conflicts Management Framework which documents the procedures in place for identifying, managing, monitoring and reporting situations giving rise to actual, potential and perceived conflicts of duty and interest for the Company and for its Directors and employees.

We maintain a **Register of Relevant Duties** and a **Register of Relevant Interests**. The Registers are tabled quarterly at meetings of the Board and the Audit, Compliance and Risk Committee. A **Summary of the Conflicts Management Policy** is available on our website.

Principle 4 – Safeguard integrity in corporate reporting

Recommendation 4.1

THE BOARD SHOULD ESTABLISH AN APPROPRIATELY STRUCTURED AUDIT COMMITTEE

Audit, Compliance and Risk Committee

The Board has an Audit, Compliance and Risk (ACR) Committee consisting of four Independent Non-Executive Directors. The Committee is chaired by an Independent Chair who is not the Chair of the Board. The qualifications of the members of the ACR Committee are set out in the **Annual Report 2018**, as is attendance at Committee meetings during the reporting period.

The ACR Committee is responsible for:

- a. Overseeing compliance with AEI's financial management obligations and, in particular:
 - I. acting as a channel of communication between the Board, the Auditor, the Internal Auditor and Management;
 - II. seeking assurance from Management that policies relating to statutory accounting matters, internal financial controls and discharge of fiduciary obligations are being carried out and relevant accounting standards have been applied.
- b. Reviewing and making recommendations to the Board on whether the Directors should approve and sign the Managed Funds and Group financial statements and related documents including the Directors' declarations;
- c. Overseeing compliance with the Group's audit obligations, in particular:
 - I. appointing the Auditor and the Internal Auditor;
 - II. reviewing the scope of the audit plans proposed by the Auditor and Internal Auditor; and
 - III. reviewing audit reports and monitoring Management's responses.

The Committee considers and monitors the performance and independence of the Auditor. In selecting an Auditor, the Committee seeks competence, industry experience, integrity and independence. Rotation of audit engagement partners occurs in accordance with the Corporations Act 2001.

The **ACR Committee Charter** is available on our website.

Recommendation 4.2

CEO AND CFO CERTIFICATION OF FINANCIAL STATEMENTS

The Managing Director and the Chief Financial Officer certify to the Board that:

- a. the financial reports present a true and fair view, in all material respects, of the Company's financial condition;
- b. operating results have been prepared in accordance with relevant accounting standards; and
- c. the financial statements are founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to identifying, managing and mitigating financial reporting risks.

Recommendation 4.3

EXTERNAL AUDITOR AVAILABILITY AT AGM

The External Auditor attends the AGM to answer audit-related questions from shareholders.

Principle 5 – Make timely and balanced disclosure

Recommendation 5.1

COMPANIES SHOULD ESTABLISH CONTINUOUS DISCLOSURE POLICIES AND ENSURE COMPLIANCE WITH THOSE POLICIES

The Company has a **Continuous Disclosure Policy** designed to ensure compliance with continuous disclosure requirements. The Policy is available on the corporate governance section of our website.

Principle 6 – Respect the rights of security holders

Recommendation 6.1

A COMPANY SHOULD PROVIDE INFORMATION ABOUT ITSELF AND ITS GOVERNANCE TO SHAREHOLDERS ON ITS WEBSITE

Information provided on the website

Our website includes a **Corporate Governance Page** where shareholders and other stakeholders can access relevant corporate governance information including Company announcements.

Recommendation 6.2

COMPANIES SHOULD DESIGN AND IMPLEMENT AN INVESTOR RELATIONS PROGRAM TO FACILITATE TWO-WAY COMMUNICATION WITH SHAREHOLDERS

Investor Relations Program

In addition to the information contained on its website the Company has an Investor Relations Policy that provides:

- a. an active social media presence that keeps shareholders and other stakeholders continually updated on relevant issues;
- b. a regular sequence of communication points with investors and members including a newsletter for investors, **Good Money**, a shareholder newsletter and an annual investor update;
- c. a **Sustainability Report** based on the G4 Global Reporting Initiative guidelines;
- d. a facility for shareholders to be advised by e-mail when ASX announcements are made; and
- e. the opportunity for shareholders and investors to vote on recipients of grants from the community grants program. The **Company's Constitution** requires it to distribute 10% of profit after tax and before bonuses for a useful charitable, benevolent or conservation purpose before a dividend can be declared.

Recommendation 6.3

COMPANIES SHOULD DISCLOSE THE POLICIES AND PROCESSES IT HAS IN PLACE TO FACILITATE AND ENCOURAGE PARTICIPATION AT MEETINGS OF SHAREHOLDERS

The Company recognises the importance of the AGM to provide shareholders with the opportunity to interact with the Board, the Auditors and Senior Management. To encourage participation at the AGM, the Company:

- a. announces the date well in advance;
- b. ensures that the AGM is held at a location that is easily accessible to shareholders;
- c. provides a facility for shareholders to submit written questions before an AGM; and
- d. records the AGM and makes the recording available on our website.

Recommendation 6.4

COMPANIES SHOULD PROVIDE THE OPTION TO SEND AND RECEIVE COMMUNICATIONS FROM THE COMPANY AND ITS SHARE REGISTRY IN ELECTRONIC FORM

The Company encourages shareholders to receive and send communications electronically.

Principle 7 – Recognise and manage risk

Recommendation 7.1

COMPANIES SHOULD ESTABLISH AN APPROPRIATELY STRUCTURED RISK MANAGEMENT COMMITTEE FOR THE OVERSIGHT OF MATERIAL BUSINESS RISKS

From a risk and compliance perspective, the ACR Committee, described in Principle 4 is responsible for:

- a. overseeing compliance obligations and completion of controls identified in the Compliance Plan;
- b. the identification and management of emerging and current material risks, incidents and breaches;
- c. the meeting of all statutory reporting obligations;
- d. the findings of any examinations by regulatory agencies and the timeliness and accuracy of reporting to regulators; and
- e. seeking assurance from Management that the Group:
 - i. has in place systems, policies and procedures designed to meet and monitor its audit, compliance and risk management responsibilities and that these policies and procedures are appropriate and contemporaneous;
 - ii. is complying with the conditions of its AFSL and APRA authorisations; and
 - iii. has a structured and methodical program in place to monitor material service providers.

The **ACR Committee Charter** is available on our website.

Recommendation 7.2

THE BOARD OR A COMMITTEE OF THE BOARD SHOULD REVIEW THE COMPANY'S RISK FRAMEWORK AT LEAST ANNUALLY TO SATISFY ITSELF THAT IT CONTINUES TO BE SOUND

We have an established framework for the oversight and management of material risks.

The Board oversees the management of risk, including agreeing the risk management methodology and overseeing its implementation, instilling a strong culture of risk identification and management throughout the Company. The Board also reviews the insurance program, with regard to the business and the insurable risks associated with the business.

The Board has delegated responsibility for overseeing the implementation and maintenance of the risk management framework to the ACR Committee. The ACR Committee requires management to implement and maintain the risk management framework and report whether material risks are being appropriately identified, managed and mitigated.

During the reporting period, regular reporting of risks was provided to the ACR Committee and a review of the risk management framework was completed.

The **ACR Committee Charter** is available on our website.

Recommendation 7.3

COMPANIES SHOULD DISCLOSE THE STRUCTURE AND ROLE OF ITS INTERNAL AUDIT FUNCTION

Our internal audit function is outsourced to PriceWaterhouseCoopers (PwC). PwC have a direct reporting line to the ACR Committee.

The findings and recommendations generated by internal audits are evaluated and reviewed by the ACR Committee and are used to drive improvements in the risk management and internal control processes applying to the business functions audited.

Recommendation 7.4

COMPANIES SHOULD DISCLOSE THEIR ECONOMIC, ENVIRONMENTAL AND SOCIAL SUSTAINABILITY RISKS AND HOW THOSE RISKS ARE MANAGED

Since listing, we have produced a **Sustainability Report** in accordance with the Global Reporting Initiative. In these reports, exposure to economic, environmental and social sustainability risks and the way in which these are managed is addressed in detail. The reports are available on the Company's website.

We are a certified B Corporation. B Corporations are an emerging movement of companies that use the power of business to create a positive impact on the world and generate a shared and durable prosperity for all.

In addition, the **Australian Ethical Charter** informs all aspects of the Company's operations and our investment philosophy is designed to engage with economic, environmental and social sustainability risks in an open and constructive manner.

Principle 8 – Remunerate fairly and responsibly Remuneration Committee

Recommendation 8.1

THE BOARD SHOULD ESTABLISH AN APPROPRIATELY STRUCTURED REMUNERATION COMMITTEE

From a remuneration perspective, the PRN Committee, described in Principle 2, is responsible for:

- a. reviewing and making recommendations to the Board in relation to the Group's Remuneration Framework;
- b. monitoring adherence to the Remuneration Framework;
- c. monitoring salary relativities throughout the Group and undertaking an annual review of remuneration using externally sourced data;
- d. determining, with reference to Management's recommendation, the remuneration of AEI employees and the payment of performance-based pay;
- e. making recommendations to the Board regarding Directors' fees and fees for Board Committees;
- f. assessing the effectiveness of the Employee Share Plan to ensure that it satisfies the objectives of incentivising and aiding the retention of employees; and
- g. considering industry benchmarks and comparators for the Managing Director's remuneration and at least annually determining the remuneration arrangements for the Managing Director.

The **PRN Committee Charter** is available on our website.

Recommendation 8.2

THE COMPANY SHOULD DISTINGUISH BETWEEN NON-EXECUTIVE DIRECTORS' REMUNERATION AND THE REMUNERATION OF EXECUTIVE DIRECTORS AND EXECUTIVES

The remuneration paid to Directors and Senior Executives during the reporting period is set out in the **Annual Report 2018**.

Non-Executive Directors receive fees for serving as Directors in the form of cash plus superannuation contributions. They do not participate in bonus or equity schemes designed for the remuneration of Executives.

Recommendation 8.3

THE COMPANY SHOULD ESTABLISH A POLICY ON WHETHER PARTICIPANTS IN EQUITY BASED REMUNERATION SCHEMES ARE ABLE TO ENTER INTO TRANSACTIONS WHICH LIMIT THE ECONOMIC RISK OF PARTICIPATING IN THOSE SCHEMES

We have equity based remuneration schemes in which all permanent employees participate. The Share Trading Policy contains restrictions on employees to prohibit them from transferring the economic risk of participating in these schemes. The Share Trading Policy is disclosed to the ASX whenever it is updated. Further information about the Company's equity based remuneration schemes is set out in the **Remuneration Report in the Annual Report 2018**.