



australian**ethical**
SUSTAINABILITY
REPORT 2008

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Contents

About this report	3
Managing director and chief executive officer's statement	4
Company profile	6
Climate change	8
Investing ethically	10
The Australian Ethical Charter©	11
Governance	12
Commitments to external initiatives	16
Stakeholder engagement	17
Our people	19
Human rights	29
Society	30
Product responsibility	32
Environment	36
Economic performance	46
Assurance	50
Appendices	53
Global reporting initiative indicators	55
Glossary	66
References	66
Feedback form	68

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‘Never doubt that a small group of thoughtful, committed citizens can change the world.[®] Indeed, it is the only thing that ever has.’

Margaret Mead

Courtesy of The Institute for Intercultural Studies, Inc., New York



Report profile

This is Australian Ethical Investment Limited's seventh sustainability report and covers the period from 1 July 2007 to 30 June 2008. Australian Ethical has an annual reporting cycle. The previous report covered the period from 1 July 2006 to 30 June 2007.

For further information regarding this report or its contents, please contact:

Philip George
Company Secretary

Australian Ethical Investment Limited
ABN 47 003 188 930

GPO Box 2435
Canberra ACT 2601

Phone: +61 2 6201 1988
Facsimile: +61 2 6201 1987
E-mail: companysecretary@austethical.com.au
Website: www.austethical.com.au

Report scope and boundary

Report boundary

This report describes the economic, environmental and social performance of Australian Ethical Investment Ltd and Australian Ethical Superannuation Pty Ltd for the year to 30 June 2008. It does not extend to the activities of the investments of the trusts and super funds managed by the Australian Ethical group, nor does it extend to the activities of its ethics research provider, the Centre for Australian Ethical Research (CAER).

The reporting of a number of environmental indicator aspects including materials, energy, water and waste is limited to Australian Ethical's Canberra offices in Bruce. It does not include the activities of staff working off site. There has been no change in the report boundary since the previous reporting period.

Report scope

There has been no change in the report scope since the previous reporting period. A list of the GRI indicators covered can be found at the back of this report. Australian Ethical plans to use the GRI Financial Services Sector Supplement released in October 2008 in its 2008–09 sustainability report.

Data measurement techniques

Data has been measured, calculated and compiled according to the GRI G3 indicator protocols. The move to Trevor Pearcey House has enabled Australian Ethical to more accurately measure a number of environmental indicators including our electricity, gas and water use, and greenhouse gas emissions.

Restatements

Data that has been restated is identified in the text along with an explanation of the effect of any restatements and the reason for the restatement.

Assurance

Australian Ethical's 2008 sustainability report was formally reviewed by the firm Thomas Davis and Company, Chartered Accountants. A report resulting from this review was provided to the Directors of Australian Ethical and is presented on page 52.

Managing director and chief executive officer's statement



Welcome to Australian Ethical's 2008 sustainability report, our seventh such report. The report provides an overview of Australian Ethical's sustainability performance for the 2007–08 financial year. Sustainability continues to be at the core of Australian Ethical's operations and our approach to investing. Sustainability principles feature prominently in the Australian Ethical Charter and involve taking a holistic approach, including investors, society and the environment.

The 2007–08 year represented Australian Ethical's first full financial year in Trevor Pearcey House, our environmentally exemplary six green star building. The building performed admirably, with energy use (per square metre) in 2007–08, 63 per cent lower than in 2005–06, our last full year at the Downer offices. Greenhouse gas emissions from energy use at Trevor Pearcey House were 72 per cent lower than emissions from an average Canberra office building and highlight the environmental benefits that can be achieved by refurbishing and fitting out an existing office block according to green building design principles. Our building has generated high levels of interest and received numerous awards in recognition of its environmental design and performance. In July this year our refurbishment won the Banksia Environmental Foundation award for the Built Environment. The Prime Minister is the Chief Patron of the awards and the win comes on the 20 year anniversary of the awards. Our employees continue to be excited about their new offices, which provide a comfortable and productive working environment.

As stated in our Constitution, each year we donate 10 per cent of our profits to charitable, benevolent and conservation purposes. In 2008 we donated \$200 891 to 25 organisations, including major grants to Bluegreen Films and Medical Students' Aid Project. Since inception, Australian Ethical has donated over \$800 000 back into the community, an achievement of which we are very proud.

Australian Ethical's commitment to providing investment products which take account of environmental, social and governance risks presents a large opportunity in a world which is beginning to recognise that these risks over time materially impact investor returns. The growth in our number of investors and super fund members highlights this trend. The ongoing volatility and uncertainty that has been experienced in global financial markets following the 'sub-prime' crisis in the USA continues to present a challenge. Whilst the Australian Ethical trusts had no direct exposure to any of these financial instruments the trusts have

experienced the impact of falling asset prices and depressed investor sentiment. Effectively communicating performance and Australian Ethical's commitment to its long-standing investment principles remains an ongoing need. We remain committed to ensuring that all our products are true to the Australian Ethical Charter because that's our *raison d'être*. Failure to do so would expose the company to reputation risks. On an operational level, the ongoing skills shortage makes attracting and retaining staff a challenge. By providing fulfilling roles, work/life balance and alignment with an individual's personal values, Australian Ethical believes it has a natural advantage in attracting and retaining staff.

In this year's report, we have placed particular emphasis on the issue of climate change. We have chosen to focus on climate change at this time as Australia and the world are at a critical juncture in the climate change debate. Decisions made in the next few years will set the course for how the world tackles the issue of climate change over the coming decades and whether the worst of dangerous climate change can be avoided. Recent scientific reports indicate that climate change is occurring at a much faster rate than even the worst case scenarios predicted by the climate models. However, there is a small window of opportunity in which our actions can avert or avoid the worst impacts of dangerous climate change. Australian companies and Australia as a society needs to play a leadership role so that we have some credibility in also asking the developing world to change their approach, as they work to raise the living standards of their people. Australian Ethical seeks to be one of the world's exemplary companies in this way. Australian Ethical's company wide strategy to tackle climate change is reflected through our investments and within our own operations. During 2007–08 Australian Ethical saved the equivalent of 81.96 tonnes of carbon dioxide from entering the atmosphere largely through the purchase of 100 per cent accredited Green Power electricity, and offset a further 98.12 tonnes through the purchase of carbon credits from Climate Friendly (www.climatefriendly.com). Prior to being off-set, Australian Ethical's 2007–08 greenhouse gas emissions were 9 per cent lower than in 2006–07.

As part of our strategy to combat climate change, Australian Ethical urges all members of parliament to ease the path for a fully sustainable economy. The very first step is a clear commitment well beyond current goals on cutting carbon emissions. We need to set bold targets for change now. Below are targets Australia should set to become an international leader in combating climate change¹:

¹ Targets are consistent with those advocated by the Australian Conservation Foundation (ACF). These targets are much greater than those proposed by the Garnaut Review Final Report and are designed to avoid dangerous climate change.

-
- political leadership in a post 2012 international agreement on tackling climate change
 - legally binding national target for cutting greenhouse gas emissions by at least 30 per cent by 2020 (from 1990 levels), increasing the commitment to 40 per cent if other developed countries do the same
 - national renewable energy target of 25 per cent by 2020
 - an effective price on greenhouse gas emissions through the national carbon trading scheme
 - work towards becoming carbon neutral by 2050
 - take a leading role educating the Australian community about climate change.

Once again, we have aligned our report with the G3 guidelines published by the Global Reporting Initiative (GRI 2006). GRI's G3 guidelines are used by companies and organisations worldwide as a framework for sustainability reporting. If you have any suggestions on ways in which to improve the content and quality of the report, please fill in the feedback form located at the back of this report or on the Australian Ethical website www.austethical.com.au.



Anne O'Donnell

Managing director and chief executive officer

Australian Ethical Investment Ltd is an independent fund manager based in Canberra, Australia. The company was established in 1986 for the purpose of pooling investor savings, specialising in environmental and socially responsible investment. It originally managed a private ethical trust until 1989, when what is now the Australian Ethical Balanced Trust opened for public subscription. Australian Ethical became a publicly listed company on the Australian Securities Exchange in December 2002. As at 30 June 2008 the company had 55 employees and \$562 million in funds under management on behalf of over 18 700 unitholders and superannuation members. Revenue for the year to 30 June 2008 was \$14 064 371, an increase of 13 per cent on the previous financial year.

The company has a commitment to improve the ethics of corporate Australia and promote ecologically sustainable and socially just enterprises through judicious investment throughout Australia as well as internationally. It currently manages five retail unit trusts: the Balanced Trust, Equities Trust, Large Companies Share Trust, World Trust and Income Trust. It also manages a wholesale trust, the International Equities Trust in which the World Trust invests. Its wholly-owned subsidiary, Australian Ethical Superannuation Pty Ltd, is Trustee for five accumulation and five pension superannuation strategies – each modelled on one of the five Australian Ethical retail trusts.

All investments are selected to assist in:

- achieving a just and sustainable society
- protecting the natural environment
- providing a competitive financial return to investors

To do this, all investments are selected using the Australian Ethical Charter (see page 11) which aims to provide investment support to environmental and socially positive activities such as recycling, conservation, energy efficiency, preservation of endangered species, animal welfare, workplace relations and a range of related issues.

As part of the company's constitution, 10 per cent of annual profits are donated to non-profit, charity, benevolent and conservation organisations.

Review of operations

The 2007–08 year was the first full financial year Australian Ethical spent in its new six green star building in the Canberra suburb of Bruce. Financially it was a year of two halves. The Australian Ethical Investment group performed strongly in the first half of the year however the full year result reflects the volatility and uncertainty that has been experienced in global financial markets following the 'sub-prime' crises in the USA. Whilst the Australian Ethical trusts had no direct exposure to any of these financial instruments the trusts have experienced the impact of falling asset prices and depressed investor sentiment. Nonetheless the Australian Ethical Trusts performed credibly in a year of poorly performing financial markets with the returns for three of our five trusts exceeding their benchmarks. This was a good result and important as the success and growth of our business is dependant on our investment performance.

The company's capital structure and policies remain relatively simple. The company currently has no debt and capital not required for working purposes is held as an investment in Trevor Pearcey House and in an investment portfolio comprising triple A rated (or equivalent) securities, senior bank debt and corporate rated debt.

Awards

During the year Australian Ethical received a number of awards, the majority acknowledging the environmentally exemplary refurbishment of Trevor Pearcey House.



Keep Australia Beautiful 2007 ACT Sustainable Cities Awards - August 2007

Australian Ethical Investment was awarded 'Overall Winner' in the Keep Australia Beautiful 2007 ACT Sustainable Cities Awards. The award recognises the sustainable refurbishment of our Trevor Pearcey House premises.



Six-star Green Star Certified Rating by the Green Building Council of Australia - October 2007

Trevor Pearcey House was awarded the 'world leadership' rating of 6 stars by the Green Building Council of Australia – the third building in Australia to receive such a rating. The Green Star rating system, an initiative of the Green Building Council of Australia, evaluates the environmental design and performance of Australian buildings based on a number of criteria, including energy and water efficiency, quality of indoor environments and resource conservation.

Accepting the six-star green star certification from the Green Building Council of Australia Left to right: Anne O'Donnell (managing director and chief executive officer, Australian Ethical Investment); Romilly Madew (chief executive officer, Green Building Council of Australia); and Howard Pender (executive director, Australian Ethical Investment).



Resource Recovery Award - October 2007

Australian Ethical Investment won the Resource Recovery Award as part of the national Australian Sustainable Cities Awards.



First runner up for Best SME Report at the CR Reporting Awards 2007 - March, 2008

Australian Ethical Investment's 2006 Sustainability Report was awarded first runner up for Best SME Report at the CR Reporting Awards 2007. Global and independent, the CR Reporting Awards identify and acknowledge the best in corporate non-financial reporting. The CR Reporting Awards are managed by CorporateRegister.com - the world's largest online directory of corporate responsibility and sustainability reports.



Banksia Built Environment Award received for Trevor Pearcey House from the Banksia Environmental Foundation Awards - July 2008

Trevor Pearcey House won the Banksia Environmental Foundation award for the Built Environment. The Banksia Environmental national Awards, now in its 20th year, are regarded as the most prestigious environmental awards in Australia. The Prime minister, Kevin Rudd, is the Chief Patron of the awards. Deputy Prime Minister, Julia Gillard and the Minister for the Environment, Heritage and the Arts, Peter Garret attended the awards evening.



Banksia Environmental Foundation awards night. Left to right: Peter Ottesen (board member, Banksia Environmental Foundation Inc); Kevin Miller (architect, Collard Clark Jackson); Warren Overton (green star assessor, Viridis); Dr Richard Price (managing director, Kiri-ganai Research); Paul Harding-Davis (head of distribution, Australian Ethical Investment); Mick Gentleman (Member for Brindabella, ACT Legislative Assembly).



Infinity Award presented to the Australian Ethical Retail Superannuation Fund for the most environmentally and socially conscious fund - March 2008

'My own search for meaning has led me to the belief that this generation – those of us living at the dawn of the twenty-first century – is destined to achieve an extraordinary transformation, one unique in the 4-billion-year history of Earth, and one which will influence the fate of life from now on. [...]

I fear that if we are to avoid catastrophic failure, we will need to learn very fast: learn, indeed, on the job. Our search for sustainability is thus an uncertain experiment, which must inevitably see setbacks and failures. Succeeding at it in the long run will be the greatest challenge we have ever faced.'

Tim Flannery 2008: Now or Never - A Sustainable Future for Australia?

Climate change is something we will face in our own lifetime, in fact it is happening now. It is hard to comprehend living in a world shaped by extreme weather events such as cyclones, tropical storms and droughts - occurring in higher frequency and increased intensity, together with rising sea levels, depleting boreal and tropical forests, and ocean acidification. Besides direct impacts, climate change has interwoven and interrelated impacts on the environment. A global temperature increase of at least two degrees Celsius by 2050 is considered almost certain by most climate experts. Therefore, 20 to 30 per cent of plant and animal species will soon be at increased risk of extinction. Australia is expected to suffer a significant loss of biodiversity in some of our richest ecological sites including the Great Barrier Reef and Queensland wet tropics by 2020 (IPCC 2007). Everything: ecosystems, water resources, agriculture, forestry, industry, human health, human settlement and society, will be affected by climate change.

It is irresponsible to continue to base our economy and society on energy sources that are having such a damaging impact on our planet. However, awareness of this damage has not affected human behaviour, yet: the recently published Carbon Budget 2007 states that fossil fuel consumption is increasing more rapidly than predicted. Despite international efforts to curb emissions, the growth rate of greenhouse gas emissions has been about four times faster since 2000 than in the previous decade (Global Carbon Project 2008).

We are already committed to a certain degree of warming as it will probably take centuries to reduce current greenhouse gases in the atmosphere to pre-industrial levels, even if we stopped emitting any today. The complete melting of the

summer arctic ice may now happen as soon as 2013, 37 years earlier than predicted only a few years ago (Scambos 2008). This is considered a 'tipping point' which, once reached, may amplify change in even more rapid ways. Other potential tipping points include the melting of the Greenland and West Antarctic ice sheets, the North Atlantic thermohaline circulation, the El Niño Southern Oscillation, the Indian summer monsoon, the West African monsoon, the disappearing of the Amazon rainforest and boreal forests, and coral bleaching (Lenton et al. 2008). Only drastic changes in the way we live can prevent extreme warming and climate catastrophe. The challenge we face is not a scientific or technical one, it lies within political and societal boundaries.

Australian Ethical is convinced that to avoid a global catastrophe we need to act now and support sharp reductions in greenhouse gas emissions. Such action need not inevitably have negative consequences on our economy. Indeed, action now is necessary to avoid much higher costs in the future – a view supported by eminent economists Sir Nicolas Stern and Professor Ross Garnaut. Similarly, we firmly believe that a shift in our economy to sustainable practises will create a longstanding prosperous economy full of new opportunities.



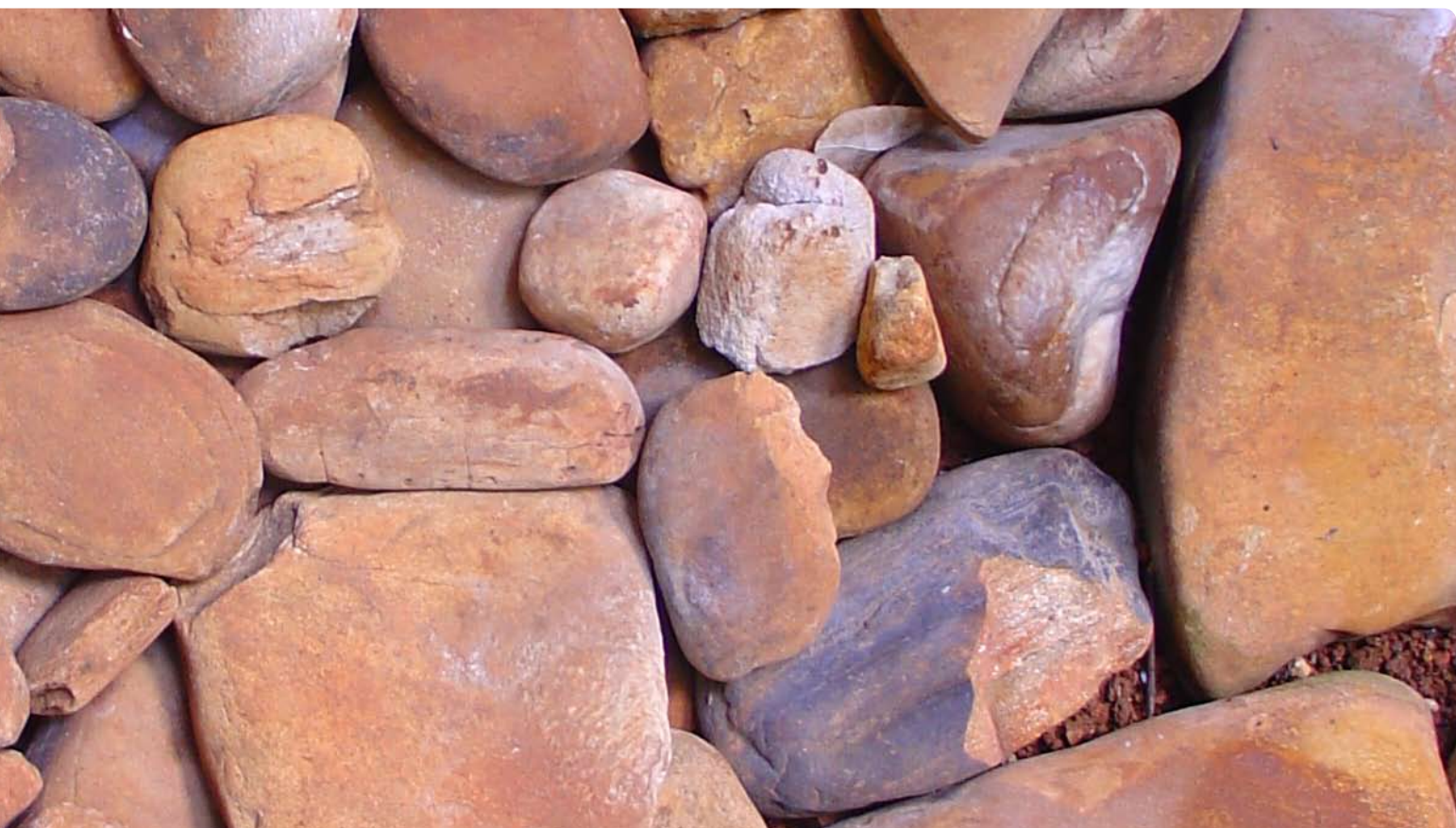
Australian Ethical's message is that it is possible to avert or avoid the worst impacts of dangerous climate change by changing behaviours, and more fundamentally, by changing cultural beliefs concerning prosperity, resource consumption and economic growth. We know what to do and how to do it. As the Australian Conservation Foundation (2008) spells out:

1. Stop wasting energy - become more energy efficient
2. Move to clean, renewable sources of energy - like solar, wind, geothermal and biomass, and
3. Use transitional fuels such as natural gas: not renewable, but has far less greenhouse gas emissions than coal.

Australian Ethical continues to avoid solutions proposed by the coal and nuclear industries. Geosequestration or carbon capture and storage technologies are problematic as they do not solve the problem at its origins but only treat the symptoms. Further, it relies on the development of new, expensive technologies that may not be commercially available for 15 years or more. We already have better solutions available to cut greenhouse gas emissions, right now. Australian Ethical is also concerned about the

increasing acceptance of nuclear power as a solution to climate change. Nuclear power is not carbon neutral and produces poisonous radioactive waste products, yet another problem that some people want to leave for future generations to solve. Both nuclear and coal power also require a large amount of water - an increasing liability in a country like Australia where water is becoming even more scarce due to the effects of climate change.

Climate change is a symptom of the way our society is exploiting the environment rather than living in balance with it. As Tim Flannery points out, 'Earth is not made for us, we are made from Earth'. We need to listen to the climate change experts, and we need to embrace positive change. There is a clear need for companies to show real leadership in cutting greenhouse gas pollution and promoting sustainable development - Australian Ethical aims to be one of those leaders. That is why we support bold targets for change now (as outlined in the managing director's statement). Australian Ethical's strategy is to tackle climate change both through our investments and within our own operations. It is prescribed in the Australian Ethical Charter and in our vision: for investors, society and the environment.





Investing ethically

Ethical investment integrates personal values with investment decisions. Ethical investors developed the concept of applying environmental, social and governance factors (ESG) and Australian Ethical was one of the pioneers in this approach. Australian Ethical follows a set of principles – the Australian Ethical Charter – and invests to obtain a financial return consistent with the risks involved, while also contributing to a sustainable society and the protection of the natural environment.

Australian Ethical offers investment strategies for different times of life and different financial circumstances. These include:

- managed investments – pooled savings, professionally managed to help individuals reach their financial goals (can also be used by self-managed super funds)
- superannuation – tax-advantaged, long-term saving for retirement.
- superannuation income stream (allocated pension) – a pre-retirement/retirement income stream.

Australian Ethical uses the Charter to inform decisions on financial products and services. Australian Ethical invests in approximately 159 entities through its unit trusts. Investments cover large and small enterprises over long and short terms, as well as the asset classes of interest-bearing securities, equities (shares) and property. They include a variety of renewable energy sources, recycling, permaculture, eco-tourism, efficient transport, pollution reduction, health care and education.

Australian Ethical regularly engages with companies on ethical issues including potential environmental impacts. In 2007–08 Australian Ethical engaged with companies on issues including animal testing, industrial relations, new acquisitions and environmental impacts of new projects.

Date of adoption: 1986. Applies worldwide.

The constituting documents of Australian Ethical Investment Ltd contain this Charter.

The Company will order its affairs so as to provide for and to support:

- a. the development of workers' participation in the ownership and control of their work organisations and places;
- b. the production of high quality and properly presented products and services;
- c. the development of locally based ventures;
- d. the development of appropriate technological systems;
- e. the amelioration of wasteful or polluting practices;
- f. the development of sustainable land use and food production;
- g. the preservation of endangered eco-systems;
- h. activities which contribute to human happiness, dignity and education;
- i. the dignity and well being of non-human animals;
- j. the efficient use of human waste;
- k. the alleviation of poverty in all its forms;
- l. the development and preservation of appropriate human buildings and landscapes.

The Company will also order its affairs so as to avoid activity which is considered to unnecessarily:

- i. pollute land, air or waters;
- ii. destroy or waste non-recurring resources;
- iii. extract, create, produce, manufacture, or market materials, products, goods or services which have a harmful effect on humans, non-human animals or the environment;
- iv. market, promote or advertise, products or services in a misleading or deceitful manner;
- v. create markets by the promotion or advertising of unwanted products or services;
- vi. acquire land or commodities primarily for the purpose of speculative gain;
- vii. create, encourage or perpetuate militarism or engage in the manufacture of armaments;
- viii. entice people into financial over-commitment;
- ix. exploit people through the payment of low wages or the provision of poor working conditions;
- x. discriminate by way of race, religion or sex in employment, marketing, or advertising practices; contribute to the inhibition of human rights generally.

Clause 2.2 of the Australian Ethical constitution obliges the directors of the company to report to shareholders on the pursuance of positive clause (a) above in the Charter and matters generally related to the status of employees at the time of the annual general meeting.

The following section outlines Australian Ethical's governance structure and related policies, with particular emphasis on environmental, social and ethical issues. For further detail on Australian Ethical's corporate governance please refer to Australian Ethical's 2008 annual report and website (www.austethical.com.au).

Governance structure

Australian Ethical has a unitary board structure, in other words Australian Ethical has one board of directors comprising non-executive and executive directors. The board is responsible for overseeing the company's goals and for developing strategic plans to achieve those goals. The Australian Ethical Investment Ltd board (and its committees) have responsibility for the oversight and audit of the company's economic, environmental and social policies and procedures. The responsibility for implementation of these policies and procedures rests with Australian Ethical's managing director and chief executive officer, Anne O'Donnell.

As at 30 June 2008 the board of Australian Ethical comprised six directors of which two were considered independent (Table 1). On 1 July 2008 the company appointed two new non-executive directors Dr Les Coleman and André Morony (an independent). Caroline Le Couteur has indicated that she will not be standing for re-election to the board. Caroline has served 17 years on the board of Australian Ethical.

Table 1: Australian Ethical Ltd board of directors during 2007–08

Name	Position	Independantly appointed	Appointed/resigned
Caroline Le Couteur	Director, executive		
James Thier	Director, executive		
Howard Pender	Director, executive		
Naomi Edwards	Chairperson, non-executive	Yes	
Pauline Vamos	Chairperson, non-executive	Yes	Resigned 31 August 2007
Justine Hickey	Director, non-executive	Yes	
Anne O'Donnell	Managing Director, executive		Appointed 29 May 2008

To avoid conflicts of interest the board adopted a policy for the management of conflicts of interests. The company's compliance officer maintains a conflict of interest register which is reviewed at each board and compliance and risk committee meeting. Details on board responsibility and the independence of directors are documented in Australian Ethical's 2008 annual report (pages 10, 11 and 13).

Board and director evaluation

The board undertakes an annual self-assessment of its collective and individual performance. A questionnaire concerning board and individual performance is completed by each director in respect of themselves and for each other director and the results collected by the board chair. Directors also seek feedback from Australian Ethical's senior management team. The results of the questionnaire are examined from both a qualitative and quantitative perspective. The review of the board's performance assists in ensuring that qualifications and expertise are adequate for keeping Australian Ethical on track with its economic, social and environmental visions and goals.

Committees

To assist in its work the board has established the following committees: audit committee, remuneration committee, finance committee, investment committee and compliance and risk committee. The role and composition of each committee as at 30 June 2008 is detailed below.

Audit committee

The audit committee provides a forum for the effective communication between the board and the external auditors. The role of the committee is to advise the board on the maintenance of an appropriate framework of financial internal control and appropriate discharge of 'trading company' fiduciary obligations for the company and its subsidiary, Australian Ethical Superannuation Pty Ltd.

Membership: Ruth Medd (chair, independent non-executive director of Australian Ethical Superannuation Pty Ltd, a wholly-owned entity), Naomi Edwards (independent non-executive director), Philip George (company secretary, executive).

Remuneration committee

The remuneration committee monitors adherence to guidelines set by the board in regards to remuneration arrangements and makes recommendations to the board on remuneration for the chief executive officer and directors.

Membership: Naomi Edwards (chair, independent non-executive director), Justine Hickey (independent non-executive director)

Finance committee

The finance committee monitors and reports to the board on the financial situation of Australian Ethical. This committee oversees the budget development process and budget preparation, reviews financial trends, claims and contingencies, and examines proposals for expenditure programs.

Membership: Anne O'Donnell (chair, managing director and chief executive officer), Justine Hickey (independent non-executive director), Howard Pender (executive director), Gary Leckie (chief financial officer, executive).

Investment committee

The investment committee oversees the processes which govern the investment of monies of the trusts for which Australian Ethical is the responsible entity and the investment of monies for which Australian Ethical has a mandate. The committee also oversees the ethics of investments, through developing a policy to ensure desired and consistent application of the Australian Ethical Charter, and monitors product consistency with the Charter.

Membership: Justine Hickey (chair, independent non-executive director), Naomi Edwards (independent non-executive director), James Thier (executive director), Howard Pender (executive director).

Compliance and risk committee

The compliance and risk committee is responsible for assessing and reporting on compliance against the compliance plans for the trusts. The committee is also responsible for reviewing the company's risk registers.

Membership: Ruth Medd (chair, independent non-executive director of Australian Ethical Superannuation Pty Ltd, a wholly-owned entity), Naomi Edwards (independent non-executive director), James Thier (executive director).

Nomination committee

During the period the company had no nomination committee. The board does not intend to establish such a committee due to the company's size. The functions normally performed by a nomination committee are performed by the board as a whole, or are delegated to particular directors.

Economic, environmental and social policies

Australian Ethical's vision

By its operations Australian Ethical will promote a sea-change in community-wide practice such that all investment will be undertaken with an ethical purpose as well as in pursuit of competitive return for chosen risk.

In addition to selecting every investment with which we are involved in accordance with the Australian Ethical Charter, Australian Ethical aims to conduct its operations in accordance with the tenets of the Australian Ethical Charter. In particular we seek to:

- ensure our promotional material is comprehensive, transparent and readily understood;
- achieve a high standard of administrative service for investors in our products;
- ameliorate wasteful or polluting practices in our own business operations;
- encourage, care for and provide educational opportunity for our fellow workers, respect their individual needs and aspirations; and
- nurture staff participation in the ownership and control of Australian Ethical.

Australian Ethical's mission

Australian Ethical's mission was adopted on 26 October 2001 and applies to its entire operations:

Short form

for investors, society and the environment

Long form

Australian Ethical's mission is to provide those investors who share our social and environmental aims (as set out in our Charter) with the means to earn a competitive return for chosen risk whilst at the same time contributing to a just and sustainable human society and the protection of the natural environment.

Australian Ethical Charter

The board is required to further the aims set out in the Australian Ethical Charter as incorporated in the Australian Ethical constitution. The Charter sets out 23 ethical principles applied across the entire operations and activities of the company (see page 11).

Code of conduct

Australian Ethical's code of conduct, endorsed by the board, applies to all employees and directors. The code is designed to provide guidance to employees and directors on standards expected by the company in everyday business operations. Australian Ethical always seeks to adhere to the code in any dealings with stakeholders. The company also strives to achieve conduct that is over and above current best practice.

Specific standards of conduct throughout 2007–08:

- we must be aware of conflicts of interest
- we must not participate in insider trading
- we must not make unauthorised gains or payments
- we must only use company assets as authorised
- we must not disclose confidential information
- we must ensure everyone has an equal opportunity
- we must compete fairly
- we must take into account any environmental, health and safety impacts before making any business decision
- we must not make unauthorised public statements
- we must not make unauthorised political donations on behalf of Australian Ethical
- we must be familiar with policies and procedures that relate to our work.

The full version of the Australian Ethical code of conduct and its share trading policy can be found on Australian Ethical's website www.austethical.com.au. The code was last updated on 27 August 2008. A whistleblowing support policy guides employees on how to disclose or alert the company on any individual or organisational malpractice. The company's external counselling service may be used by employees to discuss and consider their personal position if unsure about procedures relating to the code of conduct or any other company policy.

The board has also adopted a separate policy for the management of conflicts of interest.

Remuneration

Directors

Remuneration of directors is determined by the general meeting which may from time to time set the aggregated amount of remuneration payable to directors. Within the approved aggregated amount, fees paid to individual directors for services as a director are determined by the board. Currently, the chair receives a higher amount, with other directors receiving an equal amount. Directors' pay is determined with regard to market rates for similar businesses operating in similar industries, and recommendations made by the remuneration committee. Australian Ethical currently has no explicit linkages between director remuneration and key social and environmental performance indicators.

Details of the remuneration paid to directors and specified executives during the 2007–08 financial year are set out in the director's report within the 2008 annual report, page 21.

Secretaries, senior managers, executive directors and group executives

Australian Ethical's fundamental remuneration policy is to treat all staff (including secretaries, senior managers, executive directors and group executives) in an equitable fashion. To ensure this principle the company reviews individual remuneration annually. Remuneration levels are reviewed along external benchmarks and Australian Ethical's own policies relating to employee benefits and work/life balance. Further details on remuneration of senior managers, executive directors and group executives are set out in the corporate governance statement in Australian Ethical's 2008 annual report (pages 13, 19-25).

Performance-based remuneration and company performance

During the reporting period remuneration of one senior executive included an 'at risk component' which was linked to performance criteria in line with market expectations. There was no explicit linkage between the performance criteria set for the senior executive and key social and environmental performance indicators (see details in 2008 annual report, pages 20 and 21).

As determined by the company constitution all permanent staff are eligible to participate in the staff bonus. The payment of the bonus is set by reference to the company's profit for a relevant year. An incentive relating to medium and long term company performance is Australian Ethical's employee share ownership plan. The plan is laid out to promote employee ownership of the company. Details of the

employee share ownership plan and options issued under the plan are set out in the corporate governance statement and the director's report within the 2008 annual report (pages 20 and 25).

Staff remuneration is not explicitly linked to key social and environmental performance indicators.

Risk management and identification

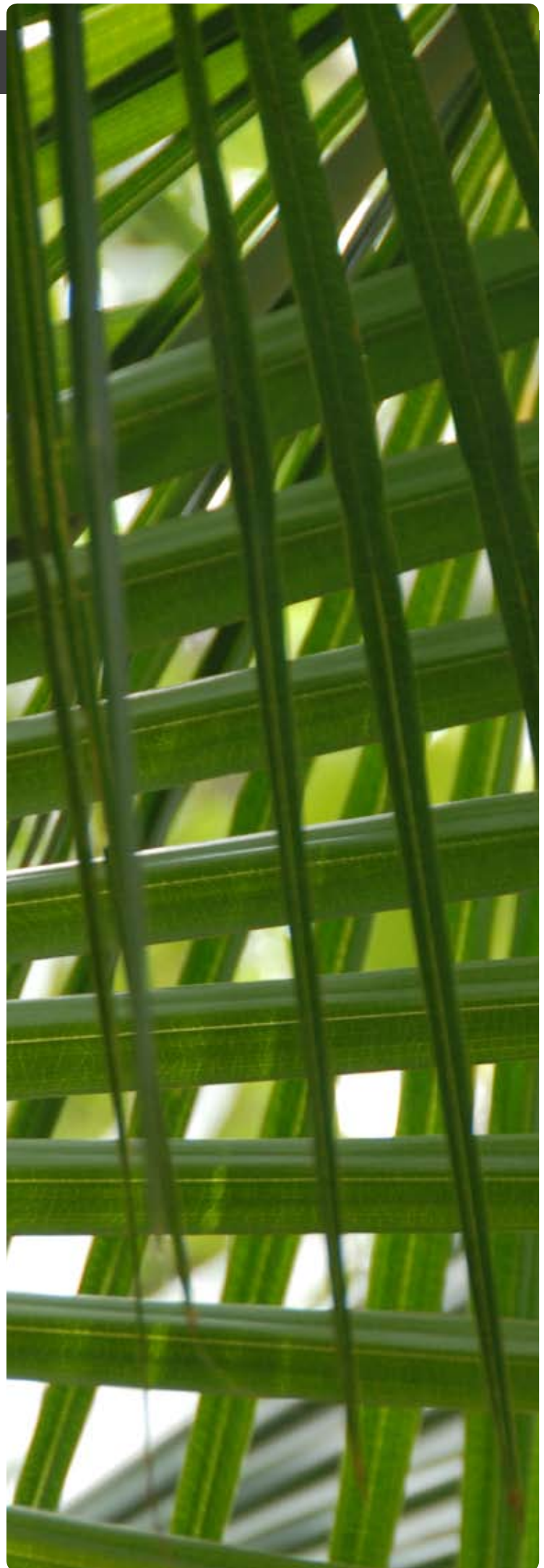
The company has established a formal 'Statement on Risk Management', together with supporting documents, 'AEI Guide for Risk Management' and section risk registers, that document the major risks facing the company, including ethical risks and the way in which these risks are to be managed. The risk registers are updated regularly and the criteria and working standards set out in the guide are periodically reviewed.

The board monitors that appropriate actions are taken to ensure the company has an appropriate internal control environment in place to manage the key risks identified. The board's compliance and risk committee has responsibility:

- to oversee and monitor the implementation of the company's risk management systems
- to review on a quarterly basis the company's risk registers and recommend to the board any changes to those risk registers.

The board monitors the operational and financial aspects of the company's activities and, through the audit committee, the board considers the recommendations and advice of external auditors and other external advisers on the operational and financial risks that face the company.

A more detailed description of the company's risk management policy and internal compliance and control systems can be found in Australian Ethical's 2008 annual report (pages 10 - 12) and on the company's website.



Precautionary principle

Australian Ethical has adopted the precautionary principle. The precautionary principle states that if an action or policy might cause severe or irreversible harm to the public or to the environment, in the absence of a scientific consensus that harm would not ensue, the burden of proof falls on those who would advocate taking the action. Examples of Australian Ethical's use of the precautionary principle include the application of the Charter to all investment decisions, being a signatory to the UN Principles for Responsible Investment, and our involvement with a number of other sustainability initiatives and associations.

External initiatives

Australian Ethical is a signatory to the following initiatives:

- *Carbon Disclosure Project*
'The Carbon Disclosure Project (CDP) provides a secretariat for the world's largest institutional investor collaboration on the business implications of climate change. CDP represents an efficient process whereby many institutional investors collectively sign a single global request for disclosure of information on greenhouse gas emissions' (CDP 2008)
- *UN Principles for Responsible Investment*
'The Principles for Responsible Investment aim to help integrate consideration of environmental, social and governance (ESG) issues by institutional investors into investment decision-making and ownership practices, and thereby improve long-term returns to beneficiaries' (PRI 2008)

Association memberships

Australian Ethical or its subsidiary Australian Ethical Superannuation, are members of the following industry and business associations:

- *Association for Sustainable & Responsible Investment in Asia (ASrIA)*
Australian Ethical is a founding member of ASrIA – 'a not for profit, membership association dedicated to promoting corporate responsibility and sustainable investment practice in the Asia Pacific region' (ASrIA 2008)
- *Association of Superannuation Funds of Australia Limited (ASFA)*
'ASFA is a non-profit, non-political national organisation whose mission is to protect, promote and advance

the interests of Australia's superannuation funds, their trustees and their members' (ASFA 2008)

- *Australian Employers Network on Disability*
'The Australian Employers Network on Disability is a not for profit organisation funded by its members to take a leadership role in advancing employment for people with disability' (AEND 2008)
- *Responsible Investment Association Australasia (RIAA)*
'The Responsible Investment Association Australasia (RIAA) is the peak industry body for professionals working in responsible investment in Australia and New Zealand.' (RIAA 2008)
- *Financial Ombudsman Service*
'If you have a problem with a financial product or service, the best place to start is to talk to your financial services provider. If you are unable to resolve the problem with your provider, the Financial Ombudsman Service provides accessible, fair and independent dispute resolution services as an alternative to taking your dispute to court. The service is free to consumers.' (FOS 2008)
- *Global Reporting Initiative (GRI)*
'The GRI's vision is that reporting on economic, environmental, and social performance by all organisations becomes as routine and comparable as financial reporting. GRI accomplishes this vision by developing, continually improving, and building capacity around the use of its sustainability reporting framework' (GRI 2008)
- *Investment & Financial Services Association Limited (IFSA)*
'IFSA is a national not-for-profit organisation which represents the retail and wholesale funds management, superannuation and life insurance industries' (IFSA 2008)
- *IPS Worldwide*
'IPS Worldwide is a human resource, risk management and health services company providing high quality human capital solutions to leading organisations. IPS Worldwide is committed to pushing the envelope by leading development and innovation in tailored workplace programs that assist organisations better manage their human resources, improve the productivity of their employees and their experience of the workplace' (IPS Worldwide 2008).

Stakeholder engagement

Stakeholder identification

Australian Ethical's stakeholder engagement is based upon the values and goals set out in the company's corporate vision and mission statements as well as the objectives of the Charter. Australian Ethical's primary stakeholders include employees, enquirers, the local community, the general public, shareholders, trust unitholders, superannuation members, financial advisers that receive information on the company's products, investee entities and suppliers. Furthermore, the company identifies the environment and future generations as stakeholders.

Approaches to stakeholder engagement and response to concerns

Engagement with employees

Staff advocate

Australian Ethical's board and management value the views and ideas of their staff, as it is the staff who ultimately determine the success of the company and its endeavours. As such, Australian Ethical makes use of a designated staff advocate to facilitate communication between staff, management and the board. The staff advocate is elected by staff every two years and dedicates around 10 per cent of their working week to these duties. The employee advocate for 2007–08 was Tim Kelly.

During 2007–08 the main area of employee engagement focused on the revision of the company's employment contracts. Particular issues discussed included changes to the staff annual review date, the employee share ownership plan and changes to leave loading, public holiday and termination policies. Additionally, the staff advocate communicated staff ideas at the company's strategy planning day.

Employee satisfaction and surveying employees

The 2008 employee survey showed that in general, staff at Australian Ethical continue to be a pretty satisfied group (Table 2). The survey is conducted on an annual basis to measure employee satisfaction and to identify areas where we can improve. Australian Ethical's commitment to people, society and the environment is one of the most cited attractions to working for the company. Fellow staff members and the friendly and informal culture are also listed by many respondents as favoured aspects of working for the company.

Over the past two years, there has been a marked improvement in staff satisfaction in regards to the physical working environment and salary levels, though some concerns still remain. Areas where staff satisfaction decreased slightly compared to the previous year include job security, training and internal communication. Australian Ethical is currently implementing an intranet portal which will assist improving the communication within the organisation. This will complement Australian Ethical's internal monthly newsletter Greenvine. Staff continue to rate the company highly in a number of areas including their current role, Australian Ethical as employer, benefits, and work-life balance.



photo © Nerida Sloane

Table 2: Employee survey results for 2007¹ and 2008

Measure	Year	Employee responses (percentage of survey respondents)				
		Very dissatisfied	Somewhat dissatisfied	Neutral	Somewhat satisfied	Very satisfied
Current Role	2007	3	5	10	35	47
	2008	2	5	16	37	40
Australian Ethical as an employer	2007	0	10	5	52	33
	2008	2	5	14	37	42
Job security	2007	0	5	20	13	62
	2008	0	2	14	44	40
Remuneration	2007	2	18	15*	40*	25
	2008	5	16	16	40	23
Benefits	2007	0	0	15*	45*	40
	2008	2	2	12	43	41
Work/life balance	2007	0	5	3	24	68
	2008	0	2	0	16	82
Training	2007	8	5	26	10	51
	2008	0	5	21	45	29
Internal communication	2007	0	8	8	70	14
	2008	2	12	12	49	25

¹ Data marked with an * has been restated due to errors in the 2007 survey results. The effect of the restatement is minor and does not change the interpretation of the survey results.

Sustainability committee

The Australian Ethical sustainability committee was established in 2002 and plays an important role in addressing sustainability issues within the company. The committee consists of five members from various areas within Australian Ethical, ensuring a broad cross section of the organisation is represented. The committee meets on a regular basis to develop and implement economic, environmental and social company policies.

During 2007–08 the sustainability committee organised a number of initiatives including:

- the company's sustainable transport days and participation in the National Ride to Work Day
- participation in the National Sustainable House Day
- presentations on environmental performance at staff morning teas

- climate change presentation by an Al Gore trained presenter
- providing support for the company's blood donation initiative
- maintaining the company's sustainability library

Volunteering

On top of its own commitment to various charitable and community organisations, Australian Ethical encourages staff to volunteer time to organisations whose aims and activities are consistent with the Charter. Under the company's volunteering policy, staff can take one full paid day off a year (or blocks of time equivalent to one day) to volunteer with approved organisations. Australian Ethical also supports staff engagement with the community. In the last year staff organised various fundraising initiatives including Lunch for Leukaemia and fundraising for Lifeline through the Stress Down on 24/7 initiative.

Engagement with shareholders

Australian Ethical strives to engage with its shareholders on a number of levels. Shareholders are encouraged to write letters to the company secretary, investment committee or the board to facilitate shareholder communication. To make the annual general meeting more accessible to shareholders, they are held after hours to encourage attendance and participation. Additionally a question section is included in the meeting notice sent out to shareholders to encourage shareholder feedback.

At the annual general meeting (AGM) held on Thursday, 22 November 2007, the chair responded to key topics raised by stakeholders which included:

- ASX announcements
- director remuneration
- payment of advisor commissions
- share splits.

Engagement with enquirers, trust unitholders and superannuation members

As a deep green fund manager, the enquiries from unitholders and superannuation members tend to focus on sustainability issues such as uranium, water, energy, health, food production, animal testing, information technology, health care, child care and green buildings. Australian Ethical is committed to applying the Charter to all investments within its funds.

Australian Ethical hosted 21 road shows in 2007–08. The road shows provide stakeholders, unitholders, superannuation members and the general public an opportunity to engage directly with the company. Nine of these road shows were held in regional areas which are often ignored by other fund managers. Four more road show seminars were held specifically for financial advisers to learn more about ethical investment. In addition, Australian Ethical staff gave 18 presentations on ethical investment at various community events around the country.

Australian Ethical also engages with investors through its quarterly newsletter Aim High. The newsletter includes articles of interest on sustainability, investor and staff profiles, and discussions of fund performance.

Engagement with broader stakeholders

Australian Ethical recognises its connection with the broader community, environment and future generations, and as such, endeavours to engage with them in the following ways:

- ensuring all investment decisions are consistent with the Australian Ethical Charter
- donating 10 per cent of the company's profit through the Australian Ethical community grants program annually
- striving for workplace sustainability through the retrofit and refurbishment of the company's new premises
- providing tours of the company's new premises to demonstrate the concept of applied green building and workplace sustainability to the general public.

Our people

The Australian Ethical Charter seeks to promote employees' ownership of their work organisations and places, and activities which contribute to human happiness, dignity and education. The following section reports on how Australian Ethical applies these principles to its own operations.

Australian Ethical workforce

After considerable growth in recent years, staff numbers remained relatively stable during 2007–08. Australian Ethical had 55 staff at 30 June 2008, one less than at 30 June 2007. The number of full time equivalent (FTE) employees at 30 June 2008 was 49.6, slightly higher than a year earlier (48.9; Figure 1). At year end, 71 per cent of employees worked full-time and 29 per cent worked part time (Figure 2), as Australian Ethical seeks to accommodate the work/life balance of employees. Table 3 provides more detail on the composition of the Australian Ethical workforce by status and also net employment creation.

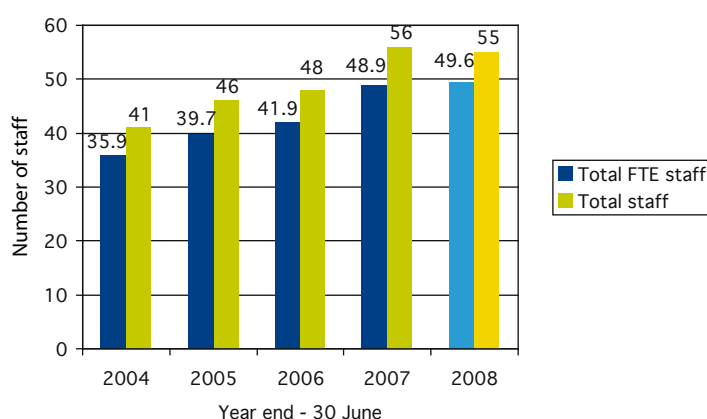
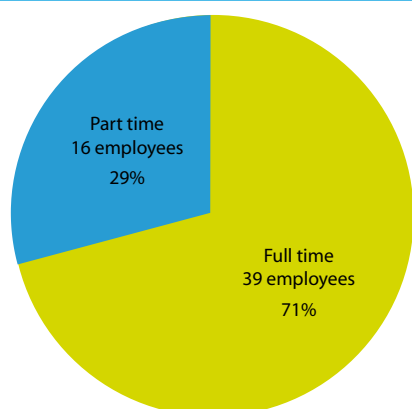


Figure 1: Trend of Australian Ethical's workforce by total staff and FTE staff



The majority of staff at Australian Ethical are employed on a permanent basis, with only one staff member on a fixed term contract at 30 June 2008 (Table 4). The high proportion of permanent staff reflects the company's commitment to job stability and enhancing corporate knowledge through long-term employment. All of Australian Ethical's employees are based in Australia, with the majority of staff working from our head office in Canberra. The eight staff not based in Canberra are located in Sydney, Melbourne, Brisbane and coastal New South Wales.

Figure 2: Australian Ethical's employees by type as at 30 June 2008

Table 3: Australian Ethical's workforce by status and net employment creation

Australian Ethical's workforce	Financial year		
	2005-06	2006-07	2007-08
<i>Status</i>			
Employees – total number of staff	48	56	55
Ongoing contractors – number of staff ¹	0	0	0
Supervised workers – number of staff	0	0	0
Total staff number (including casuals, contractors and supervised workers)	48	56	55
Employees – FTE ¹	41.9	48.9	49.6
Ongoing contractors – FTE	0	0	0
Supervised workers – FTE	0	0	0
Total FTE staff (including casuals, contractors and supervised workers)	41.9	48.9	49.6
<i>Change in staff numbers</i>			
Net increase (decrease) in staff numbers for year	2	8	-1
Total staff number at 30 June	48	56	55
Increase (decrease) in staff numbers for year	4.3%	16.7%	-1.8%
Net increase in FTE staff for year	2.3	7.0	0.7
Total FTE staff at 30 June	41.9	48.9	49.6
Increase in FTE staff for year	5.7%	16.7%	1.3%

¹ Full-time equivalent

Table 4: Australian Ethical's workforce by employment type, employment contract and location

Australian Ethical's workforce	Financial year		
	2005-06	2006-07	2007-08
<i>Permanent Staff by employment type</i>			
Full-time	31	36	39
Part-time ¹ – number of staff	17	18	16
Part-time – FTE	10.9	10.9	10.0
<i>Employment contract</i>			
Indefinite or permanent – number of staff	48	54	54
Indefinite or permanent – FTE	41.9	46.9	49.0
Fixed term or temporary – number of staff	0	2	1
Fixed term or temporary – FTE	0	2	0.6
<i>Employment location</i>			
Canberra office – number of staff	42	49	47
Canberra office – FTE	36.2	42.4	42.2
Other – number of staff	6	7	8
Other – FTE	5.7	6.5	7.4

¹ Including casual employees of Australian Ethical.

Equal opportunities

It is essential for every workplace to ensure equal opportunities for all employees. The Australian Ethical Charter seeks equal opportunities and opposes any activities that discriminate by way of race, religion and sex in employment, marketing or advertising practices. To underline equal opportunities at its workplace Australian Ethical spells out that

'All employees shall receive fair and equitable treatment in all aspects of employment without regard to political affiliation or beliefs, union membership, gender, marital status, sexual orientation, pregnancy, physical disability or ethnic origin. Equal pay will be provided for equal work.'

The company continues to outperform when it comes to female representation at the highest level. As at 30 June 2008, 67 per cent of Australian Ethical board members were female, and 50 per cent of its subsidiary's board, Australian Ethical Superannuation (AES) were also female

(Table 5). The high proportion of females on these boards is well above that found on the boards of the top 200 ASX listed companies where, on average, only eight per cent of directors are female. It is also well above average for companies within the diversified financials sector, where 14 per cent of directors are female.

Table 5: Gender composition of corporate governance bodies and employee categories

Category	Balance date					
	30.06.2007			30.06.2008		
	Total	% Male	% Female	Total	% Male	% Female
Australian Ethical board	6	33	67	6	33	67
AES board ¹	5	40	60	4	50	50
Management	12	75	25	12	75	25
Professional	16	87	13	14	86	14
Support	28	36	64	29	41	59
Total	56	59	41	55	60	40

¹ Australian Ethical Superannuation Pty Ltd (AES) board

Female employees represented 40 per cent of Australian Ethical's total workforce at 30 June 2008, compared to 41 per cent the previous financial year. This is lower than the finance and insurance sector average (based on the most recent survey data from 2006), where 52 per cent of all employees were female (EOWA 2006). At the management level, female employees represented 25 per cent of staff, compared to the finance and insurance sector

average of 32 per cent (EOWA 2006). There was a slight increase in the percentage of females in the professional category at 30 June 2008, up one percent to 14 per cent, though female representation in this category continues to be quite low. The support category continues to have the highest proportion of females, with 59 per cent of employees at 30 June 2008 being female, down from 64 per cent a year earlier (Table 5; Figure 3).

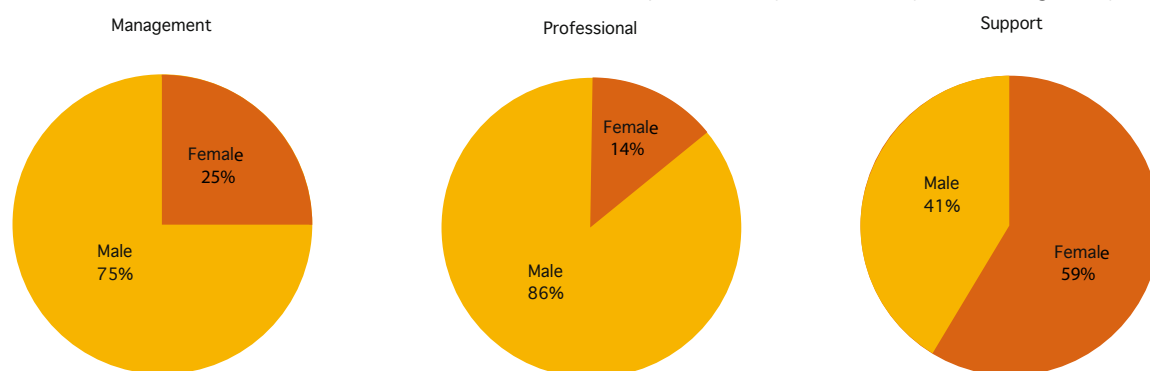


Figure 3: Gender composition by employee category as at 30 June 2008

Female to male salary ratio

Comparing the salaries of females and males undertaking similar work is a widely used method for assessing gender equality in the workplace. The labour market has historically been distorted by social constraints and prejudices in valuing female work. Today it may not be intentional but market rates continue to incorporate distortions and historical assumptions about 'skilled labour'. A recent study by the Equal Opportunities for Women at the Workplace Agency (EOWA) showed that pay equality is a major issue in the finance and insurance sector where on average a woman

working full time earns just 67.8 per cent compared with their male counterpart (EOWA 2008). Having equality in pay is not only a moral obligation but also inherits numerous positive effects for an organisation. EOWA points out that transparent and equitable pay systems:

- are more likely to generate trust and confidence among employees,
- are less likely to lead to cynicism and perceptions of unfairness,

- will increase employee loyalty and morale,
- will contribute to productivity, teamwork and operational efficiency, and
- will assist in the retention of staff.

To measure pay equality, Australian Ethical calculates the ratio of female to male salaries for basic salary and packaged salary (Figures 4 and 5). Basic salary represents hourly rates excluding additional benefits, whereas packaged salary includes superannuation, leave loading, profit sharing and options schemes.

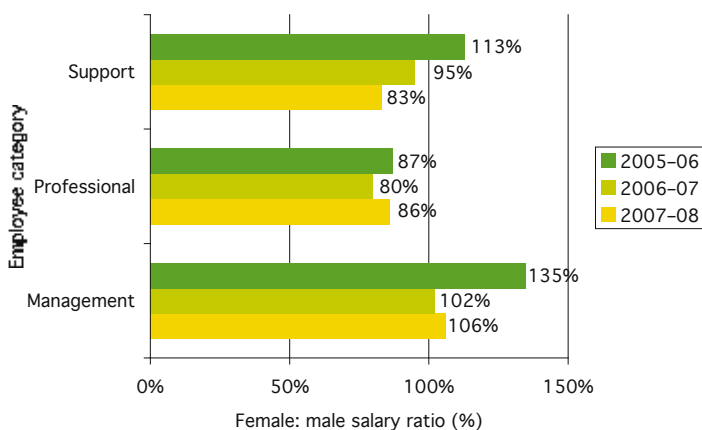


Figure 4: Ratio of female to male basic salaries per hierarchy level

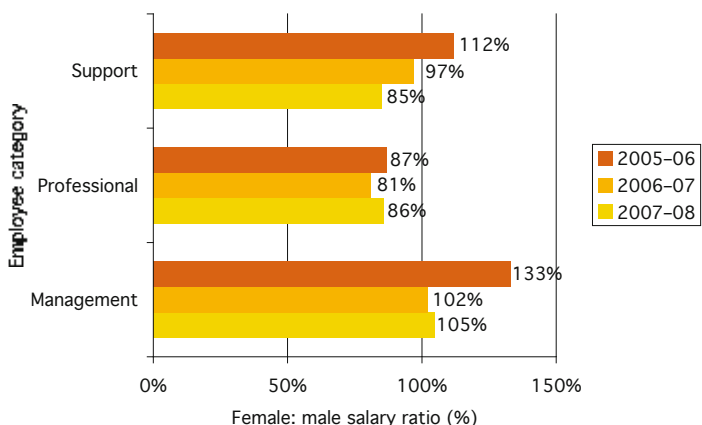


Figure 5: Ratio of female to male salary packages per hierarchy level

During 2007–08 the ratio of female to male basic salaries at management level was 106 per cent, a slight increase on the previous year (Figure 4). A larger pay gap existed in the professional category, where female professionals earned 86 per cent of the basic salary of male colleagues (up from 80 per cent in 2006–07). The ratio of female to male basic salaries in the support category has trended downward over the last three years, from 113 per cent in 2005–06 to 83 per cent in 2007–08 (Figure 4).

Female to male packaged salary ratios differed only slightly from the basic salary ratios (Figure 5). There were no differences in ratios for professionals, and only small differences in the management and support categories (one per cent and two per cent, respectively; Figures 4 and 5).

Staff in both the professional and support categories possess a broad range of skills and fulfil a variety of roles and responsibilities within the organisation. Some skills are highly sought by employers and therefore employees possessing these skills receive higher levels of pay. Investigation revealed that the majority of people employed in these areas were male, distorting the female to male salary ratio in both of these categories. Females with the same skills and responsibilities as their male colleagues receive the same pay at Australian Ethical.

Staff turnover

Employees are increasingly seeking employers with excellent social and environmental credentials. This is particularly significant in light of important issues facing companies today such as work/life balance and climate change. By providing fulfilling roles, work/life balance and alignment with an individual's personal values, Australian Ethical believes it has a natural advantage in attracting and retaining staff. Our commitment to people, society and the environment is one of the most cited attractions in working for the company. At an operational level, low turnover rates reduce costs associated with hiring and training new staff and retain corporate knowledge.

Being a relatively small organisation turnover figures tend to vary more than at larger companies. Staff turnover at Australian Ethical during 2007–08 was 11.3 per cent, down from 19.6 per cent the previous year (Table 6). In terms of FTE, staff turnover during 2007–08 was 10.7 per cent, compared to 18.5 per cent in 2006–07 (Table 6; Figure 6).

Uneven patterns of turnover across gender, age group or location may indicate incompatibility or inequality in the workplace. Overall there is no such pattern visible at Australian Ethical's operations. During 2007–08 slightly more male staff departed the company during the year than women, reversing the result of the previous year (Table 6). Also interesting was a reversal of the trend where turnover was highest in the youngest age bracket. In 2007–08 the highest turnover occurred in the over 50 age group, while the lowest turnover occurred in the under 30 age group (Table 6). All employees that departed were based at the Canberra office (Table 6).

Table 6: Staff turnover by employee type, gender, age group and location

Staff turnover¹	Financial year		
	2005–06	2006–07	2007–08
<i>Turnover by employment type</i>			
Full-time employees departing	3	7	4
Part-time employees departing	0	3	2
Part-time employees departing – FTE	0	1.5	1.2
Employees departing (total) – FTE	3	8.5	5.2
Total staff at 30 June	47	51*	53
Total FTE staff at 30 June	41.6	46.1*	48.6
Staff turnover (% of total staff)	6.4%	19.6%*	11.3%
Staff turnover (% of FTE staff)	7.2%	18.5%*	10.7%
<i>Turnover by gender</i>			
Staff departing – female	1	6	2
Female staff turnover (% of total staff)	2.1%	11.8%*	3.8%
Staff departing – male	2	4	4
Male staff turnover (% of total staff)	4.3%	7.8%*	7.5%
<i>Turnover by age group</i>			
Staff departing <30	2	5	1
<30 Age group turnover (% of total staff)	4.3%	9.8%*	1.9%
Staff departing 30-50	1	3	2
30-50 Age group turnover (% of total staff)	2.1%	5.9%*	3.8%
Staff departing >50	0	2	3
>50 Age group turnover (% of total staff)	0%	3.9%*	5.7%
<i>Turnover by location</i>			
Canberra office	2	10	6
Other	1	0	0

¹ Figures include permanent and probationary employees but not temporary staff, casual staff or contractors. Data marked with an * has been restated due to the exclusion of temporary staff from the denominator. The effect of the restatement is minor and does not change the interpretation of the results.

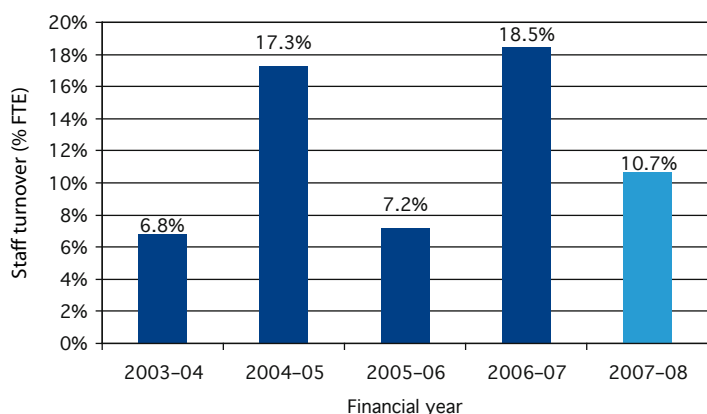


Figure 6: Staff turnover (% FTE staff)

Severance pay and job placement services

Australian Ethical is committed to ensuring fair treatment of employees working in positions which become redundant due to business restructuring. After all it is the position that is redundant, not the employee. Affected employees are informed as soon as possible and offered the option of staying for a period of up to three months after being advised. Every attempt is made to redeploy employees within the organisation. In cases where no mutually acceptable position can be found the employee will receive redundancy pay. Payment is calculated based on time worked for Australian Ethical and the age of the employee. Australian Ethical also considers paying four weeks of salary for staff members that have been employed less than twelve months by the company.

Staff departing due to redundancy have access to a recruitment service to assist them in finding employment outside of the company. Australian Ethical fully covers the cost of this service.

Training and education

Immense benefits are gained from facilitating on-going training and professional development of staff. For employees, training schemes offer the opportunity to increase skills and career development as well as improve job satisfaction. Australian Ethical, as an employer, in turn benefits from the enhanced skills and knowledge of its staff. Additionally, higher satisfaction levels of employees contribute to a positive work environment and increases the company's ability to attract and retain talented personnel.

Australian Ethical has a holistic approach to training and education: utilising professional development tools such as

performance appraisals, external training courses, support for additional studies and personal development programs. In addition, morning tea and lunchtime presentations enable staff to learn more about a range of social and environmental issues. For example, in June 2008 Australian Ethical invited an Al Gore trained presenter to give an update on the latest findings and developments in the area of climate change. Many employees attended the presentation and participated in a passionate discussion on climate change and its implications for Australian Ethical as a company and them personally.

Performance appraisal

Performance appraisals form a key part of Australian Ethical's training and development process. Appraisals are conducted on an annual basis for all employees. Since 2007-08 probation reviews for new employees are conducted after three and six months of employment. All appraisals are 360 degree evaluations which include input from all direct colleagues, team members and supervising staff. Reviews are required to be conducted in a positive and constructive manner as they are an opportunity for personal growth. In this spirit, performance appraisals provide feedback to staff and also act as a map for future training and career development.

Training and development

Training and development is a key point of discussion at performance appraisals. Any training the company requires an employee to undertake during working hours is fully paid and after hours training entitles the employee to time off in lieu.

Employees who are enrolled in private external study or professional development receive financial support and paid study leave. Australian Ethical's reimbursement system refunds 100 per cent of course fees, up to \$2 000 per year per employee with the completion of the course. Paid study leave is available for three hours per week to attend or travel to classes or to complete course work for approved programs. An additional two full days per year of paid study leave may also be taken for exam preparation or to finalise course requirements.

Figures 7 and 8 show the average hours of training by paid training (structured training for which Australian Ethical paid as work time, including paid study leave; Figure 7), and private study (structured education/study pursued externally for which Australian Ethical provided financial support; Figure 8).

During 2007–08 Australian Ethical staff completed a total of 1 688 hours of paid training, with an average of 26 hours spent per employee (Figure 7). This represents a slight decrease compared to 2006–07 when Australian Ethical staff completed a total 1 606 hours, at an average 29 hours per staff member. Training undertaken by professional staff actually increased, however, this was offset by less training undertaken by management and support staff (Figure 7).

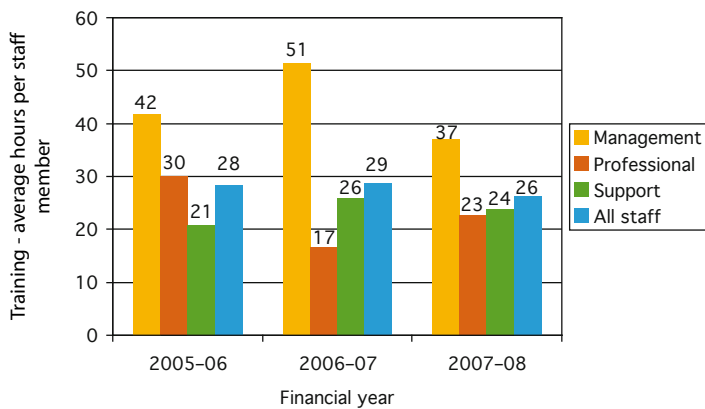


Figure 7: Average hours of structured training undertaken by staff

In contrast to paid training hours, private study hours decreased significantly during 2007–08 (from an average of 37 hours in 2006–07 to 10 hours in 2007–08; Figure 8). This continues a trend from 2005–06 and is the result of a number of staff members completing external training courses (for which Australian Ethical provided financial support), including tertiary degrees and diplomas. The trend is visible across all three employee categories (Figure 8).

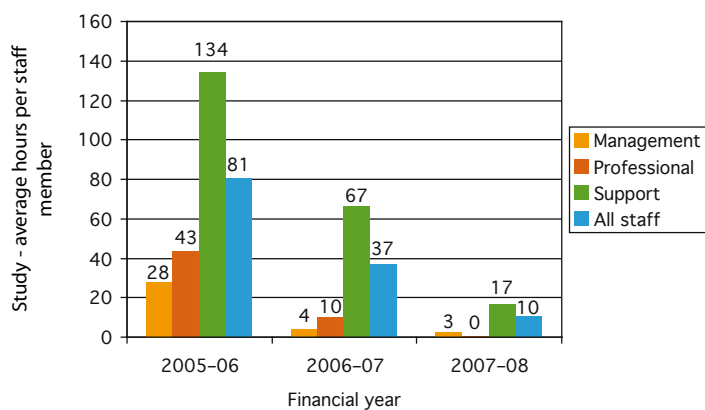


Figure 8: Average hours of study undertaken by staff

As a result of the significant decrease in private study, total hours of training (training and study combined) decreased from a total of 3 666 hours at an average 65 hours per staff member in 2006–07, to 2 336 hours and an average of 37 hours per staff member in 2007–08 (Figure 9).

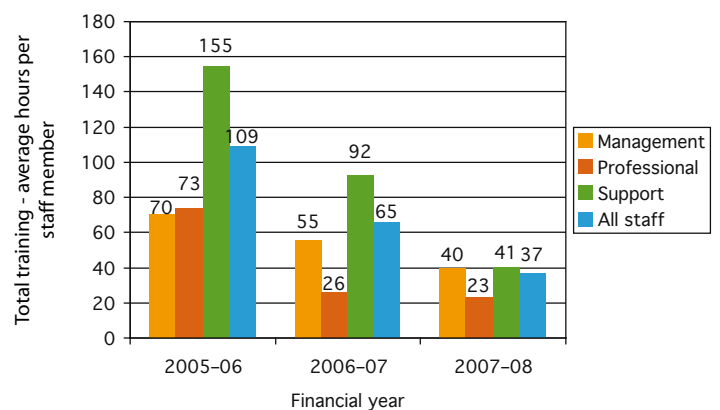


Figure 9: Total average hours of training and study undertaken by staff

Money spent on training increased to \$151 101 in 2007–08, almost \$20 000 more than \$133 261 spent the previous year. The increase was also reflected on a per employee basis, with money spent per employee (excluding casual staff and contractors) rising to \$2 798 in 2007–08 (up from \$2 514 in 2006–07). The increase in expenditure and decrease in average hours of training per employee is due to differences in the type of training undertaken, with more money being spent on conferences and short courses in place of external training courses such as tertiary degrees and diplomas.

Skills management and lifelong learning programs

In addition to professional skills development, Australian Ethical promotes personal development and lifelong learning. Our personal development program aims to incorporate health, fitness and stress relief into every working week. It improves work/life balance and contributes to human happiness, dignity and education as supported by the Australian Ethical Charter. The program grew out of a lunchtime yoga group, subsidised by Australian Ethical and expanded to include a wide range of interests. All permanent employees are entitled to a \$95 reimbursement twice a year (pro rata for part-time staff) to cover activities as diverse as indoor cricket fees, gym memberships and dance/music classes.

Employee benefits

Employee benefits are not restricted to financial incentives but also offer incentives to enhance a healthy work/life balance. Australian Ethical has a range of employee benefits in place that help to foster family relationships, on-going educational and personal development. All benefits that are offered to permanent full-time employees are extended to permanent part-time staff on a pro rata basis. Temporary employees have access to all benefits relating to leave accrual in a similar manner to permanent employees. They receive job related training as required but access to study leave and reimbursement of study costs is only provided on a case by case basis depending on how long they stay with the Company and the relevance of the study to Australian Ethical. Casual employees do not have access to leave related benefits other than long service leave accrual. They receive job related training as required, while study is facilitated through flexible working patterns. However, access to study leave and reimbursement of study costs is not provided to casual employees.

Australian Ethical's current employment conditions include:

- flexible working hours, subject to business needs
- six weeks paid maternity and adoption leave for staff who have a minimum of 12 months continuous service
- up to three days paid compassionate leave as often as required
- allowing sick leave to be used to care for sick relatives
- paternity leave
- up to three hours paid study leave per week, plus two days paid study leave per year
- three days additional leave between Christmas and New Year
- the choice of being paid monthly or fortnightly
- a subsidised personal development program
- free access for staff and their families to a counselling service
- annual leave loading of 17.5 per cent (no longer offered from fiscal 2008–9)
- salary sacrificing additional superannuation contributions
- one day of paid volunteer work each year (or blocks of time equivalent to one day) with approved organisations.

Australian Ethical continues to offer a free face-to-face and 24/7 telephone counselling service to all employees and their immediate families. The service is completely confidential and is not restricted to work-related problems. IPS Worldwide is the current provider of this service.

Our company constitution includes the principle to promote employee ownership of the company. The company gives effect to this clause through an employee share ownership plan available to all staff. A profit sharing scheme with annual bonuses also contributes to this principle. Employees are required to elect a staff advocate. The nominated advocate regularly attends board meetings providing non-management staff a channel to raise matters directly with the directors of the company. Additionally directors are required to report the status of employees to shareholders at the annual general meeting.

Occupational health and safety

Climate change poses a number of threats to human health and wellbeing. Direct threats include heat related illness and physical injuries from extreme weather events, while indirect threats include changes in the distribution and patterns of disease. The interruption to key services and infrastructure as a result of extreme weather events could also impact on human health and wellbeing.

With a warming climate, tropical regions in Australia will spread south as will disease vectors. Ross River virus (or Barmah Forest virus) is the most likely mosquito-borne disease to spread in Australia. Other diseases that could occur in areas where they are currently not known include malaria, dengue fever, Australian encephalitis, and Japanese encephalitis (AMA 2004). While business operations in Canberra, Sydney and Melbourne are not likely to be affected by these developments in the near future, those in northern coastal areas including Brisbane (where one of our employees is based) are increasingly likely to face risks of these diseases; posing new health and safety challenges in these regions. Action against climate change is therefore an important aspect in minimising future health and safety risks.

Riding to work not only has positive impacts on people's carbon footprint but also enhances personal fitness and wellbeing. Australian Ethical has been active in promoting riding to work for many years through its alternative transport days and participation in the National Ride to Work Day. Australian Ethical provides facilities at the Canberra office to make riding to work an attractive alternative including a lockable bike shed, showers, personal lockers, and a tyre repair kit and bike pump.

Australian Ethical maintains a register for all workplace injuries occurring in both the Canberra office and off-site locations. There were two minor injuries during 2007–08, one of which required further medical attention. The average number of days taken in sick leave increased in 2007–08 to 7.6 days per FTE staff member, up from 5.3 days in 2006–07 (Figure 10). On a per staff member basis, the comparable figures for 2007–08 and 2006–07 were 6.9 days and 4.8 days, respectively (Figure 11). Being a relatively small organisation, average sick leave days tends to fluctuate year on year. During 2007–08 one staff member took significant time off to recover from two operations. There was also a significant bout of flu at the beginning of the financial year. Both had a material impact on the number of sick leave days taken during the year. As a consequence of the bout of flu, Australian Ethical offered vaccinations to all employees. Approximately 20 staff accepted the offer.

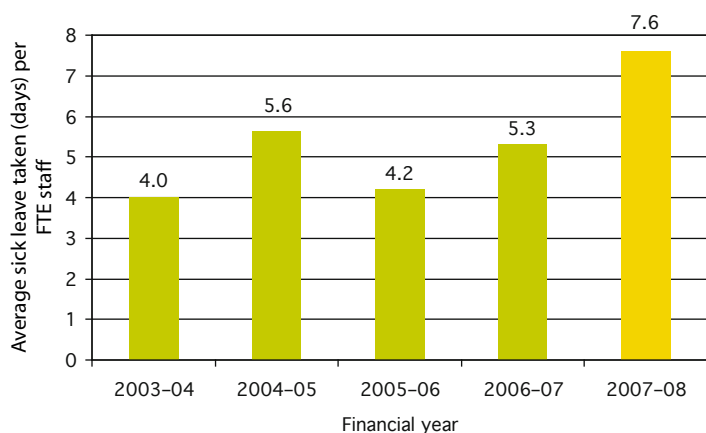


Figure 10: Sick leave taken (days) per FTE staff member

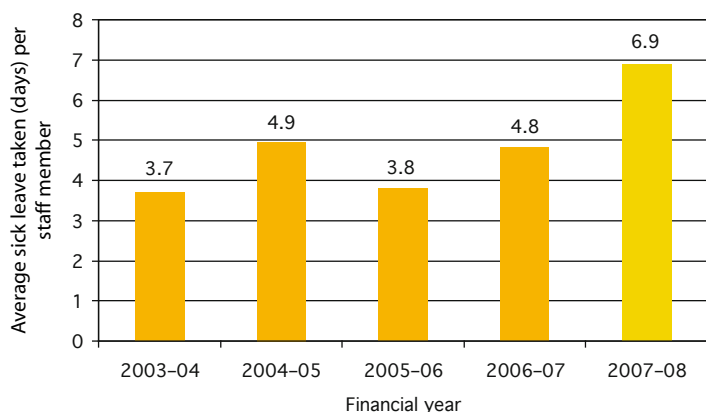


Figure 11: Sick leave taken (days) per staff member

Excessive amounts of accrued leave may indicate high levels of stress as employees take less leave during busy periods. Holidays provide a mechanism for stress relief and are essential to a healthy lifestyle. Australian Ethical employees are entitled to 20 paid days of leave every 12 months of continuous service. Leave is accrued pro rata per working day. Average annual leave accrued per FTE staff member was 18.9 days in 2007–08, up slightly on the 17.9 days in 2006–07 (Figure 12). The amount of accrued leave does not appear to be excessive relative to the annual entitlement of 20 days leave.

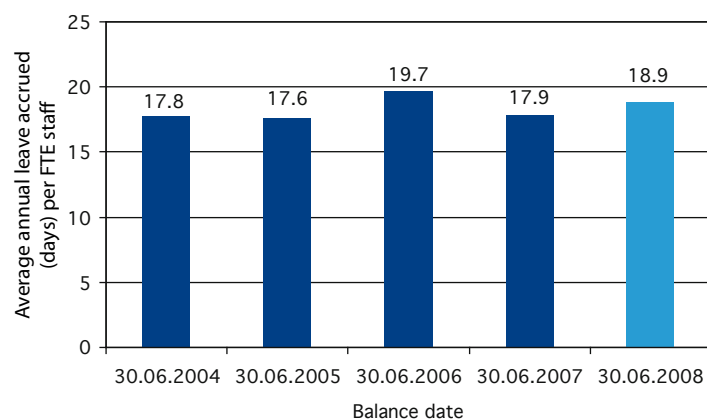


Figure 12: Average annual leave accrued (days) per FTE staff

Climate change has predominantly been viewed from an environmental and economic perspective. However, climate change will also have huge social impacts and in particular on human rights.

At greatest risk are the human rights of marginalised groups in both developing and industrialised countries. Direct threats are posed to basic rights including food, adequate housing, health and water. Indigenous peoples, residents of small island states and Least Developed Countries are the most vulnerable groups and will be among the first to suffer from climate change, partly because their livelihoods are highly dependent on their local environment. However, it is also important to acknowledge that all human rights are indivisible, interdependent and interrelated (Office of the High Commissioner for Human Rights 2007). This means that the deprivation of one right affects the others. Action to

mitigate climate change is therefore crucial to avoid further inhibition of human rights. In addition to avoiding investments in companies with human rights concerns (as outlined in the Australian Ethical Charter), by investing in companies which are part of the climate change solution, Australian Ethical is acting to avoid the inhibition of human rights due to climate change.

Investment and procurement practices

Our general screening approach to ethical investment is positive screening - in other words we select companies on a case-by-case basis, informed by the positive elements of the Australian Ethical Charter. We then rigorously research and evaluate each company judged to be a 'positive' to ensure that they do not contravene any of the 'negative' aspects of the Charter. Tenets of the Charter which directly relate to human rights are shown in Table 7.

Table 7: Tenets of the Australian Ethical Charter which directly relate to human rights

The Trusts shall seek out investments which provide for and support	The Trusts shall avoid any investment which is considered to unnecessarily
(a) the development of workers' participation in the ownership and control of their work organisations and places (h) activities which contribute to human happiness, dignity and education	(ix) exploit people through the payment of low wages or the provision of poor working conditions (x) discriminate by way of race, religion of sex in employment, marketing, or advertising practices (xi) contribute to the introduction of human rights generally

Freedom of association and collective bargaining, child labour, forced and compulsory labour, and security practices

Australian Ethical's operations are typically office-based and do not involve operations with a high human rights risk exposure. We have not identified any operations in sectors or geographical areas that constitute a risk to the right to exercise freedom of association, or activities that carry significant risks of incidents of child labour or hazardous work for young people. Australian Ethical has no operations in countries or sectors that carry risks of forced or compulsory labour. The company does not employ any security staff, and therefore does not need to communicate human rights policies to security officers.

As an office-based company providing financial services and products, Australian Ethical has not examined potential human rights risks in its supply chain. No policy on suppliers and their exposure to human rights risks was in place during 2007–08.

Australian Ethical does not specifically monitor the human rights performance of its operations and is therefore not able to report on employee training or policies and procedures concerning human rights relevant to its operations.

Non-discrimination and indigenous rights

No incidents of discrimination on the grounds of race, colour, sex, religion, political opinion, national extraction or social origin were reported in 2007–08.

Australian Ethical's main office and majority of staff are located within the Canberra region. The group recognises the Ngunnawal people as the traditional custodians of the Canberra area. Australian Ethical has not recorded any incidents involving indigenous rights in the reporting period related to either employees or to communities near the company's operations.

Community

As prescribed in Australian Ethical's constitution, 10 per cent of our profit is donated to charitable, benevolent and conservation purposes as part of our contribution to a positive and sustainable society. In 2008 Australian Ethical paid \$200 891 to 25 organisations involved in a wide range of environmental, charitable and community activities.

The grants consist of two components – two major project grants and a number of smaller grants. The large major project grants are typically made to one social and one conservation project that have a lasting tangible impact. The major project grants for 2008 were awarded to Bluegreen Films and Medical Students Aid Project.

Bluegreen Films

Bluegreen Films received a \$60 000 grant from Australian Ethical to produce the first episode of a three part documentary series Sustainability and Co. The series will focus on corporate sustainability and governance issues.

The first episode is titled Of Beetles and Bankers. The documentary series will be appropriate for broad distribution to free to air television, pay TV and online viewing as well as being produced as a DVD for general and educational markets.

Of Beetles and Bankers will examine examples of corporate behaviour and public policy with a focus on the issue of old-growth forest logging. The program will pose the question: In the context of global warming and consistent rejection of old growth logging by the public, why has old growth logging and burning been allowed to continue in Tasmania? How are public and private governance interests negotiated? Who has controlled the narrative and how was this possible?

The documentary series will be promoted in both Australia and Europe where there is considerable interest in environmental issues and corporate governance. The director is an award winning Australian filmmaker and his films have previously screened on European television channels such as ARTE/ZDF. Ideally the distribution of this series locally and overseas may act to increase pressure on both corporate and public policy makers to adopt a more sustainable approach.

This is particularly important in light of upcoming negotiations on the post Kyoto framework agreement. It is vitally important to ensure proper accounting of forest activity carbon emissions forms part of any agreement as this is a likely way to finally end old-growth logging.

It is expected that the complete preparation and production of the documentary will take 12 months to complete.

Medical Students' Aid Project

Medical Students' Aid Project (MSAP) is an aid organisation based at University of New South Wales which aims to provide targeted assistance to communities and hospitals in the developing world. MSAP received a \$50 000 project grant to collaborate with 'HandUp Congo' (www.handupcongo.org) to support the Congolese women's NGO 'Fondation Lucie Otaenga' in Lotumbe, a remote regional health hub in the Democratic Republic of Congo's Equatorial Province. MASP's grant will be used to stock a community store with school and household essentials, purchase a motorised canoe, petrol and one year's salary for a canoe pilot to allow Fondation Lucie Otaenga to sell these products at riverside markets and at the same time help medical workers access isolated communities. Profits will be used to purchase and distribute nets to combat malaria, the leading cause of infant mortality in the Democratic Republic of Congo.

In addition to providing two major grants in 2008, Australian Ethical also recognises the need to support unpaid work that is often unrecognised in the wider society. The Australian Ethical grants program acknowledges small community organisations that perform outstanding volunteer work throughout Australia and recognises that these organisations rely on grants to continue their positive work. In 2008 Australian Ethical provided financial support to smaller charitable and volunteer organisations, such as the ACT Eden Monaro Cancer Support Group, Engineers Without Borders, Pedal Power ACT, Child Wise, Asian Women at Work and the Broken Hill & District Hearing Resource Centre. A full list of organisations awarded grants in 2008 under Australian Ethical's community grants program can be found in Appendix A (see Appendix B for grants awarded in 2007).

Further information on our community grants scheme, including application guidelines and selection criteria, can be found on the company website.

Corruption

The risk of fraud and corruption is an ever present risk to companies which operate in the financial sector, and the methods in which this may occur are ever changing. Indeed, fraud and corruption pose a significant risk of monetary and reputation loss, and Australian Ethical endeavours to minimise and manage these risks through a variety of company policies, systems and ongoing compliance and risk

management procedures. An important aspect of internal fraud control is the Australian Ethical code of conduct, which explicitly refers to and prohibits bribery:

‘As a general rule, don’t accept (or offer to give) gifts, services, discounts, gratuities or other gains from (or to) people who conduct business with Australian Ethical. There are some exceptions – small gifts or invitations to local social or sporting functions are generally acceptable. The offering of bribes to anyone is prohibited outright. Breaking this principle could compromise all concerned and is illegal.’

The Australian Ethical code of conduct explicitly addresses other areas of corruption relevant to the financial sector. These include:

- conflicts of interest
- disclosure of confidential information
- insider trading
- fair competition.

The specific instructions on insider trading throughout 2007–08 were:

‘If you have non-publicly known, price-sensitive information such as: information acquired through working on investments, information about a proposal, information about any other entity in which Australian Ethical may have an interest; or information that has come to your knowledge through your employment with Australian Ethical, then you must not deal in that entity’s investments or pass that information on to another person or encourage another person (for example, a family member) to make any investments in the entity. In addition, as a general rule, you should not buy or sell Australian Ethical shares between the close of the financial year, or half year, and the announcement of our results.’

All employees of Australian Ethical receive training on the code of conduct, which covers the company’s anti-corruption policies. There were no recorded incidents of non-compliance with the code of conduct, including incidents of corruption, in 2007–08.

Public policy

Occasionally, Australian Ethical will lobby local and state governments on issues that relate to ethical investment. In 2007–08, an Australian Ethical representative met with The Greens MLC Mark Parnell while in Adelaide regarding ethical

superannuation for South Australian public servants. The company is also often asked by the media for comment on the nature of ethical investment and its related issues and in 2007–08 representatives from Australian Ethical Investment were interviewed for various television, radio and print media including Sky News, Sydney radio station 2CH, ABC Sunshine Coast, ABC Central Coast, The Australian Financial Review, The Financial Standard, The Canberra Times, EcoInvestor, The Sydney Morning Herald, The Brisbane Times, ABC Online, Smart Investor and Choice Magazine.

Political donations

It is Australian Ethical’s view that corporate donations to political parties distort the democratic principle of one vote one value and allow for disproportionate access to and influence of politicians.

Australian Ethical’s code of conduct explicitly prohibits unauthorised political donations and states that only the board may make political donations on behalf of the company. Australian Ethical made no political donations during the 2005–06, 2006–07 and 2007–08 financial years.

Anti-competitive behaviour

Australian Ethical is bound by its constitution, the Charter and its code of conduct to maintain strict ethical and law abiding standards. While Australian Ethical endeavours to vigorously compete among its peers to achieve its goals, it strives to do this in a fair, just and legal manner. There were no legal actions for anti-competitive behaviour, anti-trust and monopoly practices during the 2007–08 financial year.

Compliance

There was one significant compliance breach in 2007–08. Due to the transition of superannuation administration to a new administrator, there were delays in paying member benefit payments and rollovers beyond the period allowed for under relevant legislation. As is required, breach notification was provided to the Australian Prudential Regulation Authority (APRA) in March 2008, and further updates have been provided to APRA throughout the transition process. No monetary fine has been imposed.



Asset management policy

Australian Ethical uses a unique combination of financial and ethical objectives in the selection of its investments to maximise returns while supporting companies whose operations contribute in some way to the Charter. These objectives are part and parcel of the investment process for any of the company's investments, and consist of:

- containment of the risk of investing
- obtaining a financial return commensurate with any risk taken
- avoiding investment in activities which are socially or environmentally detrimental
- prioritising investment in profitable activities which bring social or environmental benefits.

Each investment is required meet the positive elements of the Australian Ethical Charter - an integral part of the investment process. Indeed, each investment is subject to regular monitoring and reviews to ensure ongoing compliance with the Charter. The use of the Australian Ethical Charter makes our investment methodology unique in the ethical investment market.

The application of the Australian Ethical Charter defines the universe of investments for the trusts. As at 30 June 2008 this universe covered a broad spectrum of sectors and countries (Tables 8 and 9).

Table 8: Percentage of investments by sector as at 30 June 2008¹

Sector	Balanced Trust	Equities Trust	Large Companies Share Trust	Wholesale International Equities Trust ²
Corporate - international	-	2.0	-	0.9
Energy	4.0	19.4	5.0	4.7
Materials	-	-	1.6	-
Industrials	9.4	9.5	15.2	21.6
Consumer discretionary	5.6	7.4	11.0	6.0
Consumer staples	1.4	2.1	2.6	3.1
Health care	27.4	10.1	25.1	13.4
Financials	19.3	7.3	20.4	18.4
Information technology	-	16.6	3.5	6.8
Utilities	32.8	25.6	13.0	25.1
Property trusts	-	-	2.5	-

¹ Data not available for the Income Trust.

² As the World Trust invests in units in the Wholesale International Equities Trust, the percentage of investments by sector as at 30 June 2008 were the same.

Table 9: Percentage of investments by country as at 30 June 2008

Country	Balanced Trust	Equities Trust	Income Trust	Large Companies Share Trust	Wholesale International Equities Trust ¹
Australia	94.0	72.6	96.2	62.4	4.2
Denmark	0.9	1.3	-	3.2	3.2
France	-	-	-	0.7	0.9
Germany	-	1.9	-	3.7	5.8
Hong Kong	-	-	-	0.9	4.2
Italy	-	1.9	-	0.7	8.0
Japan	-	1.9	-	2.3	12.9
Netherlands	-	1.8	-	-	0.9
New Zealand	0.6	-	-	0.6	3.6
Norway	0.5	2.0	-	1.4	2.0
Singapore	-	0.9	-	-	8.9
Spain	-	-	-	4.9	4.0
Sweden	-	1.8	-	0.5	4.2
Switzerland	-	-	-	0.9	0.9
United Kingdom	-	3.9	-	4.1	10.5
United States	4.0	10.0	3.8	13.7	25.6

¹ As the World Trust invests in units in the Wholesale International Equities Trust, the percentage of investments by country as at 30 June 2008 were the same.

Debate is an integral part of the Australian Ethical decision making process – for this reason Australian Ethical is keen to hear from stakeholders. While we reserve the right to exercise judgment regarding investment selection, comments about the ethical profiles of trust investments are reported regularly to the Australian Ethical investment committee. These profiles are prepared by the Centre for Australian Ethical Research Pty Ltd (CAER), Australian Ethical's research provider.

In October 2005 Australian Ethical became one of the first fund managers to receive certification under the Responsible Investment Association Australasia (RIAA) certification program. This symbol involves verification of Australian Ethical's investment selection processes through an independent auditing process managed by the association. Further information can be found at www.eia.org.au.

Ethical analysis

Australian Ethical is known as a specialist and pioneer in the field of deep green investment. Ethical investors

developed the concept of applying environmental, social and governance factors (ESG) and Australian Ethical was one of the pioneers in this approach.

Researchers from CAER, in conjunction with Australian Ethical analysts, investigate potential investee enterprises to assess the ethical dimension of considered investments. This work is supervised by the investment committee through the chief investment officer and combines financial and ethical analysis to determine the investment selection priorities. By utilising the services of CAER and the work of Australian Ethical analysts, the investment committee keeps abreast of major new scientific initiatives, outcomes and developments. Attendance at conferences and seminars covering environmental and social issues also assist researchers and staff in identifying potential risks and opportunities. This research capacity allows an active approach to seeking out enterprises dedicated to the sustainable improvement of communities, company operations and business across the environmental, social and ethical spectrum.

The investment philosophy is based on the principles of the Australian Ethical Charter. The Charter provides guidance in setting out types of activities to be supported, as well as types of activities to be avoided. For example, Australian Ethical is supportive of companies whose business and/or activities involve the efficient use of human waste, but avoids investment in companies considered to create markets by the promotion or advertising of unwanted products or services.

On the one hand there are certain types of companies Australian Ethical will not invest in (for example, companies operating in the tobacco, uranium or gambling industries), while on the other hand Australian Ethical is also very active in its positive approach to investment selection. Australian Ethical differs from most ethical fund managers because of this. Australian Ethical does not merely apply negative screening to the range of potential investments; it also seeks to support positive sustainable investments.

When making decisions on the ethical merits of a company, Australian Ethical first considers the core business activity of the company in question. Investment becomes a possibility provided the core activity of the company does not directly contravene any principles the Charter requires us to avoid. It becomes a greater possibility if the core activity of the company falls into any of the areas the Charter states the Trust shall seek out.

Having made a decision, it is necessary to determine whether the way in which the company behaves in carrying out its core activities might contravene an aspect of the Charter, or might be identified as being supported by the Charter – such as positive workplace relations or market leading sustainability initiatives. This in-depth ethical research is generally carried out by CAER and is gathered from a range of publicly available sources such as company publications, media, government information and material from non-government organisations.

Once an investment is deemed acceptable according to the Charter, Australian Ethical's analysts undertake a thorough financial analysis. Australian Ethical's monitoring of investments is extremely rigorous. Once an investment makes it through the investment selection process set out above, it becomes an investment that is subject to regular and ongoing monitoring. All companies within the trusts have a formal ethical review at least annually with continual monitoring through media sources occurring throughout the year. All investor queries regarding the ethical performance of investee companies are responded to in a timely fashion and a review and summary of enquiries is passed to the investment committee as part of its quarterly meeting process.

If for example an investee company diversifies into an excluded industry or engages in unacceptable practices, a review will be performed by CAER which may involve company engagement (either correspondence, telephone or face-to-face) both prior to and after the event. If, on the weight of evidence, the stock or investment is no longer considered appropriate, it will be divested as soon as it is possible.

In developing the engagement process for a particular investment, Australian Ethical and CAER work together to formulate the best approach suited to the issue or the particular situation and clear documentation of the whole engagement process is maintained by Australian Ethical and CAER. During the 2007–08 financial year Australian Ethical and CAER engaged with 16 companies on environmental and social issues. This represented 10 per cent of the 159 investee entities held at the end of the 2008 financial year.

Australian Ethical aims to be as transparent as possible about the results of the investment process. The product disclosure statements include details of companies invested in and a regularly updated list of investments also appears on the company website www.austethical.com.au.

Proxy voting policy

Australian Ethical has made a commitment to vote (or make a considered decision to abstain) on investee company resolutions where it has voting authority and responsibility to do so (consistent with IFSA Standard No 13.00 – Proxy Voting). At 30 June 2008, the percentage of investments where Australian Ethical held the right to vote was 69 percent.

Decisions on how to vote proxies are made on a company-by-company, resolution-by-resolution basis with regard to the following points:

- the preservation and increase of the value of the investment in the best interests of members in the trust
- improving and upholding the governance of investee companies
- the overall performance of the investee company
- the application of the Australian Ethical Charter with respect to the resolution under consideration.

During the 2007–08 financial year, Australian Ethical voted proxies for almost all investee companies where it has voting authority and responsibility to do so. There were only 11 entities for which no proxies were voted, mainly because the AGM was not required, there were no voting rights or no notification was received. A total of 764 resolutions were

voted on across the Balanced Trust, Equities Trust, Large Companies Share Trust and International Equities Trust (no shares are held by the Income Trust, which means this precludes the trust from the proxy voting process). This is a considerable increase from the 467 resolutions voted on in 2006–07.

Of the 764 resolutions voted on across the four Trusts, 26 were voted 'against' and Australian Ethical 'abstained' from voting on two. The negative votes related to remuneration issues (director fees and the issue of options or shares to directors and CEO's), appointment and re-election of directors, an anti-takeover provision which was not in our interest and unsatisfactory terms for an omnibus stock plan. The resolutions Australian Ethical abstained from voting on related to insufficient information being provided.

Since changing our custodian to National Australia Bank Ltd in 2007, all our voting for domestic and international stocks has been done online through Votex. Voting for our unlisted companies was actioned through the custodian.

Further information on Australian Ethical's proxy voting policy and proxy voting record is available on our website www.austethical.com.au.

Product disclosure statements

Under the Corporations Act 2001 (amended by the Financial Services Reform Act), a retail client (i.e. a potential investor) should receive a product disclosure statement before acquiring a financial product. A product disclosure statement is a document that sets out the key features of the financial product being offered and should include any risks, benefits and cost involved with the financial offering. It is Australian Ethical's policy to complete and distribute a product disclosure statement as required by law and in accordance with company compliance procedures. Product disclosure statements are made freely available both in print and electronic form upon request and at the Australian Ethical website.

Company procedure includes the review of product disclosure statements by appropriate sections within Australian Ethical, this is then completed through verification and sign-off by the section head. Product disclosure statements are reviewed by Australian Ethical's legal team and board delegates who are deemed responsible for overseeing the review of the document.

In addition to this, tenet 'b' of the Australian Ethical Charter

states that the company should seek out and support production of high quality and properly presented products and services. Adherence to this tenet is required internally by Australian Ethical as well, as it is enshrined in the company constitution. Hence the same standard applies to the company's internal operations as the Charter requires of investee companies. In short 100 per cent of the company's products and services are subject to these information requirements.

In 2007–08 there were no incidents of non-compliance with regulations and voluntary codes concerning products and service labelling, including publication of product disclosure statements.

Customer satisfaction

Australian Ethical values its customers and their experiences when interacting with customer service representatives, and as such, Australian Ethical regularly monitors customer satisfaction and complaints to ascertain specific areas of operational concern and potential improvement. During 2007–08 Australian Ethical recorded 76 customer complaints and general expressions of dissatisfaction. While this is a substantial increase from the 48 complaints received in 2006–07, this increase can largely be attributable to the change of superannuation administrator, which led to unexpected processing delays. All complaints were addressed in a professional and satisfactory manner.

Marketing communications

Marketing activities are carried out within the broader context of the Australian Ethical business plan and the overall strategy of the marketing section. These activities are carried out in accordance with marketing section procedures and the Australian Ethical constitution. Programs for adherence to laws, standards, and voluntary codes that have particular relevance to Australian Ethical's marketing activities include the Corporations Act 2001; Goods and Services Tax; National Privacy Principles; Copyright; Spam Act 2003; Trade Practices Act 1974, Australian Securities and Investments Commission (ASIC); Investment and Financial Services Association Limited; Association of Superannuation Funds of Australia Limited; and the Advertising Standards Council.

Customer privacy

Australian Ethical Investment takes its responsibility to maintain the privacy of its customer's details and information extremely seriously, and is pleased to confirm that there were no complaints from customers regarding breaches of privacy or losses of data during the 2007–08 financial year.

Reducing resource consumption

Consistent with the Charter, Australian Ethical seeks to ameliorate wasteful or polluting practices in our own operations. Environmental impacts of office-based businesses include consumption of paper and stationery, energy and water use, transport, waste and greenhouse gas emissions. Australian Ethical has a purchasing policy to help reduce the environmental impact of this consumption:

- Australian Ethical will consider ethical issues in deciding what to buy
- Australian Ethical will follow the 4 R's – reduce, reuse, recycle and refuse – in considering whether to make purchases
- In general, Australian Ethical is prepared to pay up to a 20 per cent premium for a more sustainable product and will consider a higher premium for an exemplary product
- Australian Ethical will consider alternatives to travel, especially air travel before business travel is undertaken (e.g. phone conferences)

Eco-efficient practices

Australian Ethical has implemented a number of eco-efficient practices throughout its business operations including:

- double-sided printing as default option on all computers
- use of Evolve 100 per cent post-consumer recycled printer and photocopy paper (www.evolve-papers.com)
- paper and cardboard recycling facilities
- purchasing office stationery made from recycled materials
- recycling of printer toner cartridges
- printing of Aim High newsletter, product disclosure statements and annual reports on 100 per cent recycled, calcium carbonate coated chlorine-free paper using vegetable-based inks
- use of paper pens for outreach made using 100 per cent recycled paper tubes
- electronic copies of the product disclosure statements available on the Australian Ethical website www.austethical.com.au
- recycling facility in kitchen for glass, plastic and aluminium
- compost bin in kitchen for organic matter and organic matter compost facility outside
- Green Power electricity and offsetting travel related greenhouse gas emissions via Climate Friendly www.climatefriendly.com

Materials

Paper

Australian Ethical uses a significant amount of paper. During 2007–08 the company used approximately 1.374 million A4 sheets of 100 per cent recycled paper (equivalent to 110 trees using non-recycled paper; see Table 10). Managed investment and superannuation product disclosure statements (PDS) represented 25 per cent (339 500 A4 sheets) of the paper used; newsletters, 23 per cent (319 257 A4 sheets); leaflets, 20 per cent (271,730 A4 sheets) and office printing and photocopying paper, 18 per cent (242 132 A4 sheets) (Table 10).

Paper use in 2007–08 increased by 149 737 A4 sheets or 12 per cent over the previous year. The largest increases occurred in leaflets (up 228 697 A4 sheets) and printer and photocopier paper (up 50 099 A4 sheets) – the two categories which recorded the largest decreases in 2006–07. The largest falls in 2007–08 were recorded in the trust annual report (down 80 600 A4 sheets) and superannuation PDS (down 46 089 A4 sheets).

Printer and photocopier paper usage per average full-time equivalent staff member (Canberra office) increased by 13 per cent in 2007–08 to 5 484 A4 sheets per staff member (or approximately 11 reams; Figure 13). This followed a 45 per cent decrease between 2005–06 and 2006–07. Despite the increase in 2007–08, Australian Ethical's office paper use still compares favourably with the median office paper use of 34 organisations in a benchmarking study by the Commissioner for Environmental Sustainability (2007). The study reported a median figure of slightly less than 20 reams per FTE (approximately 10 000 A4 sheets). The best performing organisation was the Queensland EPA which used just 3.2 reams per FTE (1 600 A4 sheets).

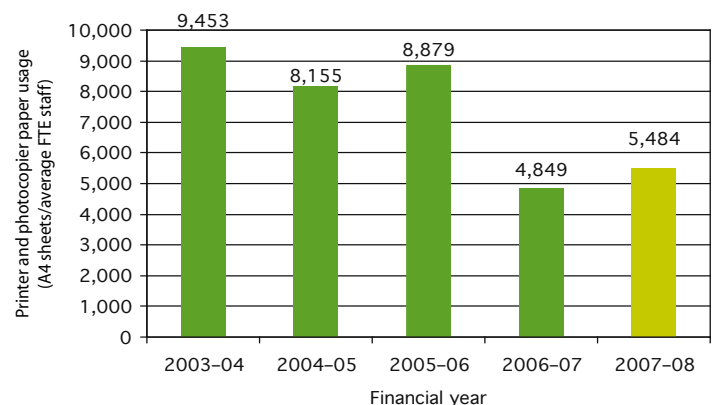


Figure 13: Printer and photocopier paper usage per average full-time equivalent staff member

Table 10: Paper usage¹

Paper usage	Financial year		
	2005–06	2006–07	2007–08
A4 sheets			
Managed investments PDS	152 955	137 250	155 100
Superannuation PDS	228 830	230 489	184 400
Newsletters	304 000	316 000	319 257
Leaflets	223 743	43 033	271 730
Annual report to shareholders	12 600	14 280	1 540
Trust annual report	138 000	96 600	16 000
Half yearly trust report	19 500	0	0
Printer and photocopier paper	321 507	192 033	242 132
Letterhead paper	46 000	30 000	51 000
Compliment slips (A4 equivalent)	3 817	900	900
Super fund statements (mail house)	26 676	69 264	57 460
Super annual report	30 000	31 500	57 073
Other	52 547	62 819	17 313
Total A4 sheets	1 560 175	1 224 168	1 373 905

¹ Paper usage data excludes envelopes.

Communicating with current and potential investors is an essential part of a fund managers' business. Paper currently plays an important role in facilitating this communication. As the number of investors and superannuation members with which we communicate grows, so too does the challenge of reducing our paper usage. Technology is greatly assisting Australian Ethical meet this challenge by reducing the need for information to be sent on paper. For example, potential investors can access our product disclosure statements via the Australian Ethical website and much of the information previously mailed to investors is now sent by e-mail. The company is planning to give super members the option of receiving the super annual report electronically, thereby

saving significant amounts of paper. As technology improves, Australian Ethical hopes to provide more information to its stakeholders via electronic means, restricting and reducing our paper use.

Stationery

Stationery use as represented by total dollar costs, increased by \$614 or 12 per cent in the 2007–08 financial year, while cost per average full-time equivalent staff member increased by \$1 or 0.8 per cent (Table 11). The low level of stationery consumed per staff member is in line with Australian Ethical's 4 R's Policy – reduce, reuse, recycle and refuse.

Table 11: Stationery use

Stationery costs	Financial year		
	2005–06	2006–07	2007–08
Total cost	\$5 441	\$5 006	\$5,620
Cost/average FTE staff ¹	\$150	\$126	\$127

¹ Average full-time equivalent (FTE) staff based in Canberra office.

Energy

The 2007–08 year was Australian Ethical's first full financial year in our refurbished business premises, Block E of Trevor Pearcey House.

During 2007–08 Australian Ethical used 346 247 MJ or 380 MJ/sqm of energy (69 150 kWh of electricity and 97 306 MJ of gas). On a per square metre basis, this represents a 48 per cent reduction on our 2006–07 energy use (8 months in the Downer offices and 4 months in Trevor Pearcey House) and a 63 per cent reduction on our 2005–06 energy use (our last full year at the Downer offices) (Table 12; Figure 14). Electricity use per square metre fell by 29 per cent, from 107 kWh/sqm in 2006–07 to 76 kWh/sqm in 2007–08. When compared to 2005–06, our last full year in the Downer offices, the decrease was 39 per cent (Table 12; Figure 15). Gas use per square metre fell from 339 MJ/sqm in 2006–07 to 107 MJ/sqm in 2007–08, representing a decrease of 68 per cent. Compared to 2005–06, the decrease was 82 per cent (Table 12; Figure 16).

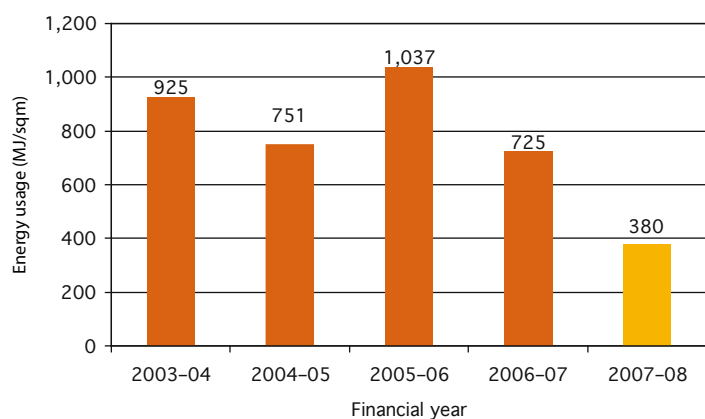


Figure 14: Energy usage (mega joules per square metre)

Table 12: Energy use

Energy use	Financial year		
	2005–06	2006–07	2007–08
Energy MJ ¹	669 113	505 271	346,247
Energy MJ/sqm	1 037	725	380
Electricity kWh	79 644	76 248	69 150
Electricity kWh/sqm	124	107	76
Gas MJ	382 393	230 779	97 306
Gas MJ/sqm	593	339	107
GHG emissions (tonnes CO ₂ e)	107.86	93.46	79.65
GHG emissions (tonnes CO ₂ e/sqm)	0.167	0.133	0.087

¹ Sum of total gas and electricity usage, where 1 kWh = 3.6 MJ.

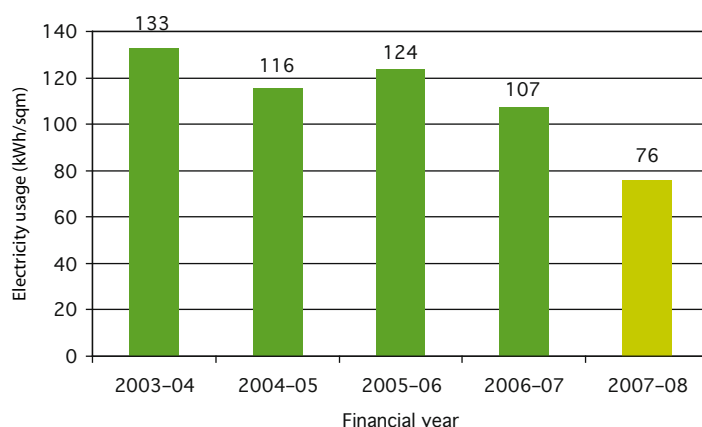


Figure 15: Electricity usage (kilowatt-hours per square metre)

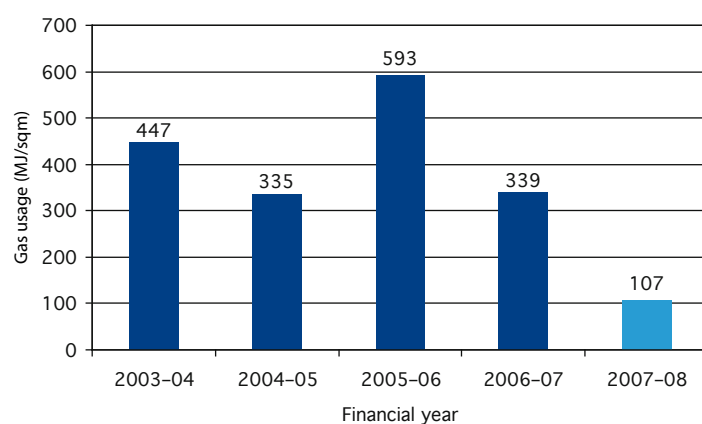


Figure 16: Gas usage (mega joules per square metre)



To neutralise the greenhouse gas impact of our energy use, Australian Ethical purchased 100 per cent accredited Green Power from ActewAGL and purchased carbon credits from Climate Friendly www.climatefriendly.com. If we had not done this, greenhouse gas emissions from energy use at Trevor Pearcey House during 2007–08 would have totalled 79.65 tonnes CO₂e or 0.087 tonnes CO₂e/sqm (Table 12; Figure 17). This is still 72 per cent lower than the greenhouse gas emissions from an average Canberra office building and highlights the environmental benefits that can be achieved by refurbishing and fitting out an existing office block according to green building design principles.

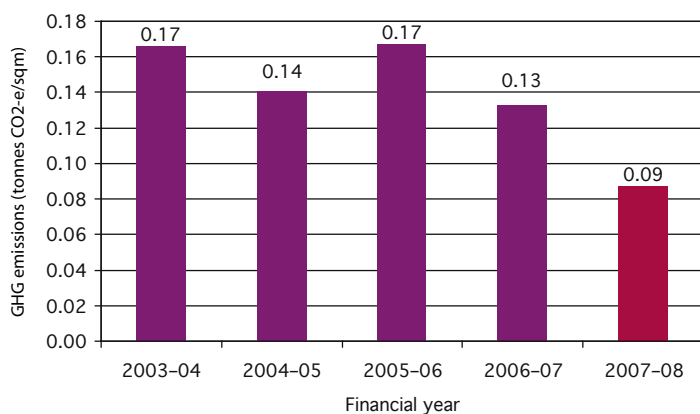


Figure 17: Greenhouse gas emissions (tonnes CO₂ e/sqm)

The refurbishment was undertaken using a conventional budget and used accepted, conventional and low-technology design principles. These included:

- passive cooling and ventilation combined with a wider thermal comfort band reducing demand on mechanical systems
- double glazed windows
- external walls are ‘reverse brick veneer’; this ensures the thermal mass on the inside is insulated from the outside air temperature
- R6 insulation under the metal deck roof
- improvements to shading panels
- exposing the ground floor slab
- evacuated tube solar hot water heating
- highly efficient T5 artificial lighting
- lighting is timer and occupancy controlled
- workspaces designed to take maximum advantage of natural light.

The building is designed to be passively cooled in the warmer months by a ‘night purge’. This involves the windows automatically opening at night when the temperature drops to draw cool air into the building, while the hot air from inside the building is exhausted via the four internal stacks and the louvered windows in the barrel vault.

Further information on the Trevor Pearcey House refurbishment can be found on Australian Ethical’s website.

Water

During 2007–08 Australian Ethical used 99 kL or 0.11 kL/sqm of mains water. This is 85 per cent less than the median Canberra office water consumption benchmark of 0.72 kL/sqm.

On a per square metre basis, water use in 2007–08 was 66 per cent lower than in 2006–07 and 73 per cent lower than in 2005–06 (Table 13; Figure 18).

Table 13: Water usage

Water used	Financial year		
	2005–06	2006–07	2007–08
kL/sqm	0.41	0.32	0.11
Total kL	263	213	99

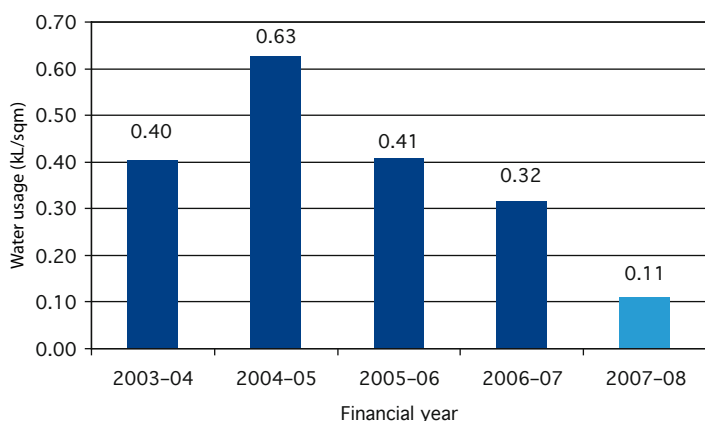


Figure 18: Water usage (kilolitres per square metre)

This is an exceptional result and highlights the benefits of incorporating water efficient features in the refurbishment of Trevor Pearcey House. These features include:

- taps upgraded to 4L per minute, showerheads to 5A fittings - 6L per minute
- upgrade of the existing single flush toilets to dual flush with a 9/4.5L system.
- urinals upgraded with a Sani-Sleeve low water use system reducing water use by 95%
- rainwater tanks collecting from the roof and plumbed for use in flushing the toilets
- garden drip irrigation with moisture sensor.

Climate change and the associated reduction in rainfall in south eastern Australia has resulted in significantly lower

runoff into our streams and rivers. This, combined with the over-allocation and inefficient use of water has placed immense pressure on our river systems and water supplies. The installation of water efficient features in all existing and new commercial buildings would result in significant savings of our most precious resource.

Transport

Australian Ethical is keenly aware that the methods of transport employees use to get to and from work can contribute to climate change through the use of petrol and diesel. To encourage the use of alternative modes of transport which have a smaller environmental footprint, Australian Ethical promotes the use of bicycles by providing free secure bike storage facilities and shower amenities. Additionally, the head office is located on major bus routes, which makes the use of public transport more convenient for employees.

During the 2007–08 financial year, a total of 54 per cent of employees commuted to work by car (eight per cent car-pooled), which is five per cent less than the previous year and 29 per cent lower than the overall average for the ACT (83 per cent; ACT Sustainable Transport Plan, 2007).

In the same period, Australian Ethical has also seen an increase in employees commuting to work on foot and by bicycle, with three per cent and two per cent increases compared to 2006–07, respectively. A full breakdown of Australian Ethical employee's mode of transport for 2007–08 is shown in Figure 19.

² Calculated benchmark based on a median Canberra office water consumption of 0.72 kL/net lettable area (NLA) sqm (Department of the Environment and Heritage 2006)



Figure 19: Primary transport used by Australian Ethical staff to commute to work during 2007-08

Australian Ethical staff made 421 flights and 572 taxi cab trips during 2007-08 (2006-07: 358 flights and 414 taxi cab trips). Airflights are the largest source of emissions at Australian Ethical. While the number of flights increased, total emissions from air travel stayed relatively constant at 88 600 tonnes of CO₂e in 2007-08, compared to 89 500 tonnes CO₂e in 2006-07. This is due to less long haul international flights and a greater number of domestic flights. Emissions per average full time equivalent (FTE) employee were 1.74 tonnes CO₂e compared to 1.97 tonnes CO₂e in 2006-07 (Figure 20). The 12 per cent decrease is mainly due to an increase in average FTE employees while emissions stayed relatively constant. As Australian Ethical is responsible for the greenhouse emissions generated by this travel, the company offset all emissions from flights and cab trips using Climate Friendly www.climatefriendly.com.

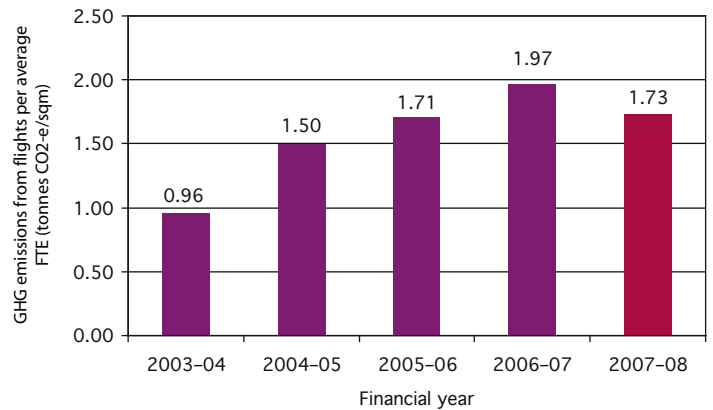


Figure 20: Greenhouse gas emissions from flights (tonnes CO₂e/sqm) per average FTE

To encourage and promote the use of alternative forms of transport as a way to reduce the environmental impact of commuting, Australian Ethical hosts regular alternative transport days, which include a free breakfast for employees who made use of an alternative mode of transport to get to work, such as public transport, bicycles or car pooling. Australian Ethical has corporate bus tickets available for employees who need to travel during work hours for work purposes. Additionally, Australian Ethical endeavours to use teleconferences where possible to replace face-to-face meetings that may require travel. Where business travel cannot be avoided, Australian Ethical encourages employees to choose the most sustainable travel option, such as rail travel over air travel.

Emissions, effluent and waste

Waste

It is estimated that Australian Ethical produced 4 727 kg of waste in 2007-08, compared to the 4 673 kg of waste generated during 2006-07, an increase of one per cent (Tables 14 and 15). Approximately 4 084 kg (87 per cent) of waste was recycled, while 643 kg (13 per cent) went to landfill. The majority of waste was paper, making up approximately 65 per cent of total waste.

The categories of waste recording the largest increases in 2007-08 were food organics recycled (up by 195 kg), general waste to landfill (up by 103 kg), and cardboard recycled (up by 15 kg; Tables 14 and 15). The categories recording the biggest falls were paper recycled (down by 235 kg), recyclable containers recycled (down by 18 kg) and recyclable containers to landfill (down by 13 kg; Tables 14 and 15).

Table 14: Waste for the year to 30 June 2008

Waste type	Weekly waste (kg)	2007-08 waste (kg)	% of waste sub-total	% of total waste
Waste to landfill				
Paper	0.2	9	1	0
Cardboard	0.2	11	2	0
Recyclable containers ¹	1.0	52	8	1
Food organics	3.0	156	24	3
General waste ²	8.0	415	65	9
Sub-total	12.4	643	100	13
Waste recycled				
Paper	59.0	3 069	75	65
Cardboard	2.8	144	4	3
Recyclable containers ¹	3.3	169	4	4
Food organics	13.5	702	17	15
Sub-total	78.6	4 084	100	87
Waste generation total³	91.0	4 727		100

¹ Includes glass, plastic and aluminium.

² Includes plastic wrappers/bags, tissues, paper hand towel etc.

³ Australian Ethical's Canberra offices only.

Waste to landfill per average FTE staff remained relatively stable, increasing by only 0.8 kg between 2006-07 and 2007-08 to 14.6 kg (Figure 21).

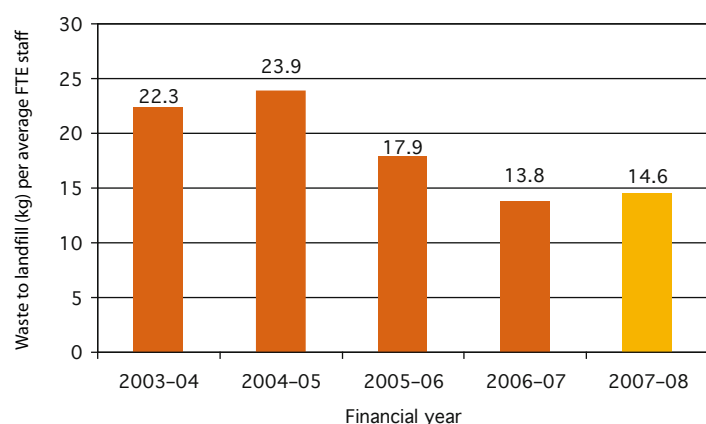


Figure 21: Waste to landfill (kg) per average FTE staff

Greenhouse gas emissions

During 2007-08 Australian Ethical saved the equivalent of 81.96 tonnes of carbon dioxide from entering the atmosphere and offset a further 98.11 tonnes (Table 16). Australian Ethical saved 73.30 tonnes of carbon dioxide by purchasing 69 150 kWh of 100 per cent accredited Green Power electricity from ActewAGL under the GreenChoice program. The company also saved a further 8.67 tonnes of carbon dioxide by recycling 86 per cent (4 084 tonnes) of waste. The company offset 98.11 tonnes of carbon dioxide (from natural gas, waste to landfill, flights and taxi cab trips) through the purchase of carbon credits from Climate Friendly (www.climatefriendly.com).

Prior to being off-set, Australian Ethical's 2007-08 greenhouse gas emissions were 9 per cent lower than in 2006-07 (Tables 16 and 17). The decrease in emissions was largely a result of lower gas usage at Trevor Pearcey House.

Table 15: Waste for the year to 30 June 2007

Waste type	Weekly waste (kg)	2006–07 waste (kg)	% of waste sub- total	% of total waste
Waste to landfill				
Paper	0.1	7	1	0
Cardboard	0.1	6	1	0
Recyclable containers ¹	1.3	65	12	2
Food organics	3.0	156	29	3
General waste ²	6.0	312	57	7
Sub-total	10.5	546	100	12
Waste recycled				
Paper	63.5	3 304	80	71
Cardboard	2.5	129	3	2
Recyclable containers ¹	3.6	187	5	4
Food organics	9.8	507	12	11
Sub-total	79.4	4 127	100	88
Waste generation total³	89.9	4 673		100

¹ Includes glass, plastic and aluminium.

² Includes plastic wrappers/bags, tissues, paper hand towel etc.

³ Australian Ethical's Canberra offices only.

Table 16: Greenhouse gas (GHG) emissions for the year to 30 June 2008¹

GHG emissions (t CO ₂ e)	Saved	Generated	Offset	Net
Scope 1 emissions				
Gas	0.00	6.35	6.35	0.00
Scope 2 emissions				
Electricity	73.30	0.00	0.00	0.00
Scope 3 emissions				
Waste recycled	8.67	0.00	0.00	0.00
Waste to landfill	0.00	0.56	0.56	0.00
Air flights	0.00	88.60	88.60	0.00
Taxi cabs	0.00	2.60	2.60	0.00
Total	81.97	98.11	98.11	0.00

¹ Greenhouse gas emissions from electricity, gas and waste were calculated using the National Greenhouse Accounts (NGA) Factors - January 2008. Emissions from air flights and taxi cabs were calculated using Climate Friendly's online calculator (www.climatefriendly.com).

Table 17: Greenhouse gas (GHG) emissions for the year to 30 June 2007¹

GHG emissions (t CO ₂ e)	Saved	Generated	Offset	Net
Scope 1 emissions				
Gas	0.00	16.29	16.29	0.00
Scope 2 emissions				
Electricity	77.16	0.00	0.00	0.00
Scope 3 emissions				
Waste recycled	9.04	0.00	0.00	0.00
Waste to landfill	0.00	0.45	0.45	0.00
Air flights	0.00	89.50	89.50	0.00
Taxi cabs	0.00	1.90	1.90	0.00
Total	86.20	108.14	108.14	0.00

¹ Greenhouse gas emissions from gas and waste were calculated using the Australian Greenhouse Office Factors and Methods Workbook, December 2006. Emissions from air flights and taxi cabs were calculated using Climate Friendly's online calculator (www.climatefriendly.com). Emissions saved by using Green Power electricity were sourced from invoices and calculated by ActewAGL.

Compliance

Australian Ethical was not subject to any significant fines or non-monetary sanctions for non-compliance with environmental laws and regulations in 2007–08.

Environmental protection expenditure

During 2007–08 Australian Ethical spent a total of \$8 239 on the protection of the environment. This figure includes costs for:

- off-setting greenhouse gas emissions through Climate Friendly
- paying a premium for Green Power generated from renewable energy sources
- paying for the Banksia Awards application for the refurbished Trevor Pearcey House
- sustainability committee initiatives – alternative transport events, a bike pump and books for the sustainability library.



The 2007–08 financial year was a good year for Australian Ethical despite the turmoil in the financial markets and the overall impact of the credit crunch that impacted financial markets across the globe. The following section outlines the company's economic performance for the year ending 30 June 2008.

Economic performance

The company experienced strong growth in funds under management during the first half of the financial year with funds under management peaking at \$645 million. This growth and the revenue generated cushioned the impact of downward market movements and a decline in investor confidence in markets which occurred in the second half of the financial year. As at 30 June 2008, funds under management totalled \$562 million (ex. Distribution; Figure 22). This compares with funds under management of \$552 million (ex. distribution) as at 30 June 2007. The aggregate distribution amount paid for the current period was \$9 million, compared to a distribution the previous year of \$59 million.

Funds under management across the investment trusts and corresponding superannuation strategies is shown in Figures 23, 24 and 25. As the company's funds under management grows, more money will be invested according to ethical principles. As this financial momentum moves through the Australian business sector, the company will play its role in reducing the impact of climate change on the Australian and global economies.

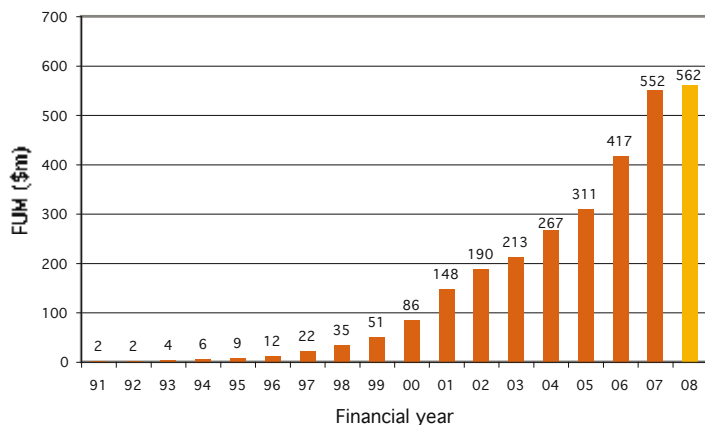


Figure 22: Growth of funds under management (years ending 30 June) – figures are net of crossholdings

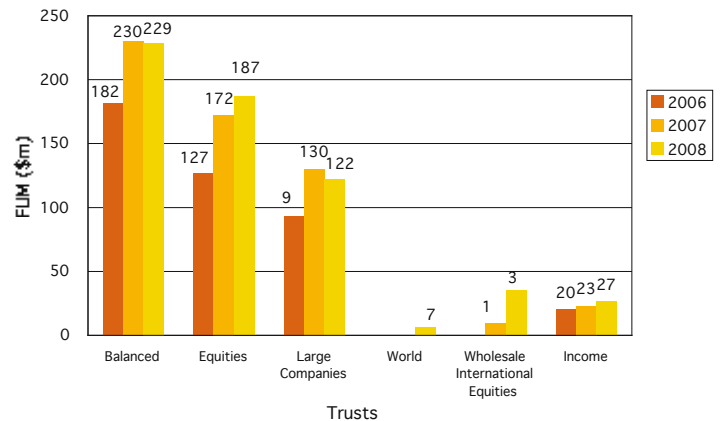


Figure 23: Unit trusts – funds under management – figures include crossholdings

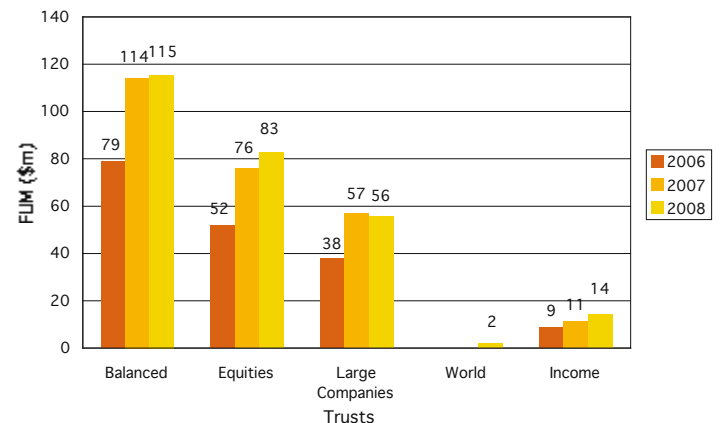


Figure 24: Superannuation accumulation and rollover strategies – funds under management¹

¹ Figure does not include cash allocated to the strategies that is yet to be used to purchase units.

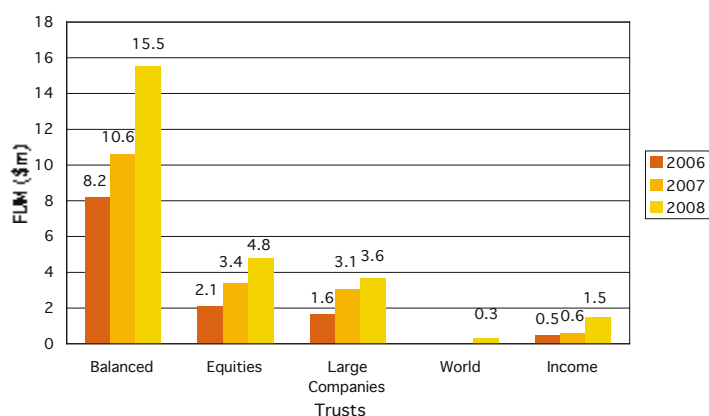


Figure 25: Superannuation pension strategies – funds under management¹

¹ Figure does not include cash allocated to the strategies that is yet to be used to purchase units.

Revenue for the year to 30 June 2008 was up 13 per cent to \$14 064 371, while net profit after tax was down 9 per cent to \$1 651 790 (Table 18). Total dividend declared in relation to the 2007–08 year was \$1.65 which represents a 98 per cent payout ratio. The dividends paid to shareholders during the 2007–08 year totalled \$1 879 826 (representing the payment of the final dividend for 2006–07 in October 2007 and the interim dividend for 2007–08 in March 2008). Economic value retained decreased from \$982 502 to (\$228 036), largely due to the financial market downturn in the second half of the year (Table 18). Over the year the company's net assets increased from \$7 684 133 to \$8 381 490 (Table 19).

Table 18: Economic performance indicators – financial year

Economic performance indicator	Financial year		
	2005–06	2006–07	2007–08
Direct economic value generated			
Revenues	\$9 661 723	\$12 086 455	\$14 064 371
Economic value distributed			
Operating costs	\$3 516 920	\$4 228 953	\$5 155 175
Employee wages and benefits ¹	\$3 827 029	\$4 754 081	\$5 972 707
Payments to capital providers (dividend)	\$705 750	\$836 675	\$1 879 826
Payroll tax	\$159 432	\$222 570	\$284 373
Income tax	\$625 599	\$836 710	\$799 435
Total tax (total payment to government)	\$785 030	\$1 059 280	\$1 083 808
Community investments – tithe	\$170 132	\$224 964	\$200 891
Economic value retained			
Economic value generated less economic value distributed	\$656 862	\$982 502	(\$228 036)

¹ Excludes payroll tax.

Table 19: Economic performance indicators – balance date

Economic performance indicator	Balance as at 30 June		
	2006	2007	2008
Total assets	\$8 279 224	\$10 052 296	\$11 152 242
Net assets	\$6 273 783	\$7 684 133	\$8 381 490

Australian Ethical's community grants

As prescribed in Australian Ethical's constitution, 10 per cent of our profit is donated to charitable, benevolent and conservation purposes as part of our contribution to a positive and sustainable society. In 2008 Australian Ethical paid \$200 891 to 25 organisations involved in a wide range of environmental, charitable and community activities. Further information on our community grants scheme can be found on page 30.

Financial implications of climate change

Australian Ethical, as a deep green fund manager, is by virtue of its business very much aware of climate change issues in day to day operations. Climate change has risks and opportunities for all businesses. Australian Ethical's unique position in its niche market in the funds management industry offers investors the opportunity to contribute to solve or alleviate some of the environmental and social issues faced today, like climate change. Australian Ethical expects that awareness of environmental problems will increase and broaden the number of potential investors as the issue of climate change is taken up by the media and the general public.

The risk of being exposed to companies largely affected by climate change related regulatory changes such as carbon trading is considered to be low given Australian Ethical's investment approach and screening process. The company is not exposed to carbon intensive industries within its investment portfolio. Australian Ethical considers itself to be well positioned in a market that puts an effective price on carbon.

Australian Ethical has mainly office based operations in Canberra and staff in Sydney, Melbourne, Brisbane and coastal New South Wales. The company does not expect any operations to be directly affected by climate change in the near future.

While the company is aware of the risks and opportunities climate change presents, the company has not quantified the financial implications of climate change for the organisation to date.

Superannuation obligations

The retirement plans offered to all employees of the company are accumulation superannuation strategies based on the requirements outlined by government legislation. There are no defined retirement benefit plans offered to employees.

The company is fulfilling its superannuation obligations as required by Australian law. In Australia it is mandated by Superannuation Guarantee Contributions to contribute nine per cent of every salary to the accumulation superannuation strategy/ies of the employee's choice.

Financial assistance from the government

There are no direct financial benefits from the Australian Government to Australian Ethical and no governments are represented in Australian Ethical's shareholding. However, changes in government legislation pertaining to superannuation requirements could impact favourably on the funds management industry per se. For example, legislation requiring an increase in superannuation guarantee contributions would have a positive impact on the overall investment funds flowing into the superannuation strategies offered by the company. The impact from legislative changes would obviously depend on the nature of the change and Australian Ethical's market share at the time.

Market presence

Suppliers

Tenet 'b' of the Australian Ethical Charter supports the production of high quality products and tenet 'c' supports the development of locally based ventures. These principles are adhered to in the day to day purchasing and sourcing of goods.

Australian Ethical's head office in Bruce, Canberra, Australian Capital Territory (ACT) is considered the company's location of significant operation. Being office based and a relatively small organisation with 55 employees, the company purchases a moderate amount of stationery, cleaning, staff amenities and corporate office supplies.

Adhering to the principles in the Charter, Australian Ethical sourced most of its business supplies locally, generating and supporting business in the local ACT region. The company's three main suppliers have offices close to Australian Ethical's operations in Canberra and are the businesses of choice for these purchases.

In addition Australian Ethical's purchasing policy allows paying up to 20 per cent more for environmentally or socially exemplary goods and, where possible, these are also sourced locally. For example the company sources fair trade coffee from the local Fyshwick markets.

Hiring

Australian Ethical's procedures for hiring locally and the proportion of senior management hired from the local community at locations of significant operation is outlined below.

The company hiring procedure is one based on merit. The Canberra employment market is accessed through the Canberra Times and local agencies that cover Canberra as a first step. Australian Ethical also utilises an environmental jobs network and a disability work group when recruiting new employees. Senior management positions which may require specialist skills are advertised nationally. Currently all but one of the senior management team are Canberra and district residents.

All new employees are taken through an induction process that outlines policies and procedures that they need to adhere to with regard to environmental and social issues when employed by Australian Ethical. All Australian Ethical employees are also required to familiarise themselves with and adhere to the comprehensive Australian Ethical code of conduct (see page 14).

Indirect economic impacts

Indirect economic impacts play an important role in fostering socio-economic change. Australian Ethical's indirect impacts are largely characterised through raising awareness on ethical investment and related issues, such as considering climate change in investment decisions. Australian Ethical undertakes public seminars and presentations on ethical investment and regularly puts out media releases highlighting links between ethical investment and topical environmental and social issues of interest to the community and stakeholders at large. Broadly speaking these initiatives provide public benefit to the community through commercial, in-kind and pro bono engagement. In some cases, these seminars and presentations have led to the development of local initiatives in which the company also got involved.

Australian Ethical has recently increased focus on sponsorships helping engagement with empathic groups and their members or supporters. Major sponsored events during 2007–08 included the Big Canberra Bike Ride, Walk Against Warming, the Sustainable House Day and the Human Rights Arts and Film Festival. There is also the community grants program which has been covered in more detail elsewhere in this report.



photo © Nerida Sloane

Report content

In defining the report content, Australian Ethical applied the GRI reporting framework's 'Guidance on defining report content' and associated principles. This involved:

- identifying the topics and indicators considered relevant by undergoing an iterative process using the principles of materiality, stakeholder inclusiveness, sustainability context and completeness
- considering the relevance of all indicator aspects identified in the GRI guidelines and financial services sector supplements
- using the tests listed for each principle to assess which topics and indicators were material
- using the principles to prioritise selected topics and decide which were to be emphasised.

Materiality

GRI defines materiality as the threshold at which an issue or indicator becomes sufficiently important that it should be reported (GRI 2006). It refers not only to those topics and indicators that have a significant financial impact on the company, but also includes those economic, environmental and social impacts that cross a threshold in affecting the ability to meet the needs of the present without compromising the needs of future generations (GRI 2006, WCED 1987).

In determining which topics and indicators were material, Australian Ethical took into account a number of internal and external factors. These included Australian Ethical's vision and mission statement, the Australian Ethical Charter (see page 11), the expectations and interests of stakeholders, and Australian Ethical's sustainability impacts, risks and opportunities.

Australian Ethical considered the majority of GRI core indicators to be material. A number of GRI additional indicators were also considered material, as were the majority of indicators contained in the pilot versions of the financial services sector supplements for social and environmental performance. Topics and indicators were prioritised based on the significance of their economic, environmental and social impact and their influence on the assessments and decisions of stakeholders.

Stakeholder inclusiveness

Australian Ethical identified a number of stakeholders

including employees, shareholders, trust unitholders, superannuation members, financial advisors, investee entities, suppliers, the local community and the greater public in general. Australian Ethical also identified the environment and future generations as stakeholders.

In preparing this report, Australian Ethical attempted to meet the reasonable expectations and interests of its stakeholders. The expectations and interests of stakeholders were sought through a number of engagement processes, including surveys, feedback forms and peer review comment.

Assurance

Independent external assurance enhances the quality and credibility of a sustainability report. Australian Ethical's policy and practice, since its second sustainability report published in 2003, has been to seek independent external assurance of its sustainability report.

Australian Ethical's 2008 sustainability report was formally reviewed by the firm Thomas Davis and Company, Chartered Accountants. Thomas Davis and Company also audit Australian Ethical's financial report. Thomas Davis and Company visited Australian Ethical's Canberra office on 3 November 2008 and spent a total of 25 hours reviewing the financial/numeric data contained in the report (for example, energy, employee and waste data). A report resulting from this review was provided to the Directors of Australian Ethical and is presented on the page 52.

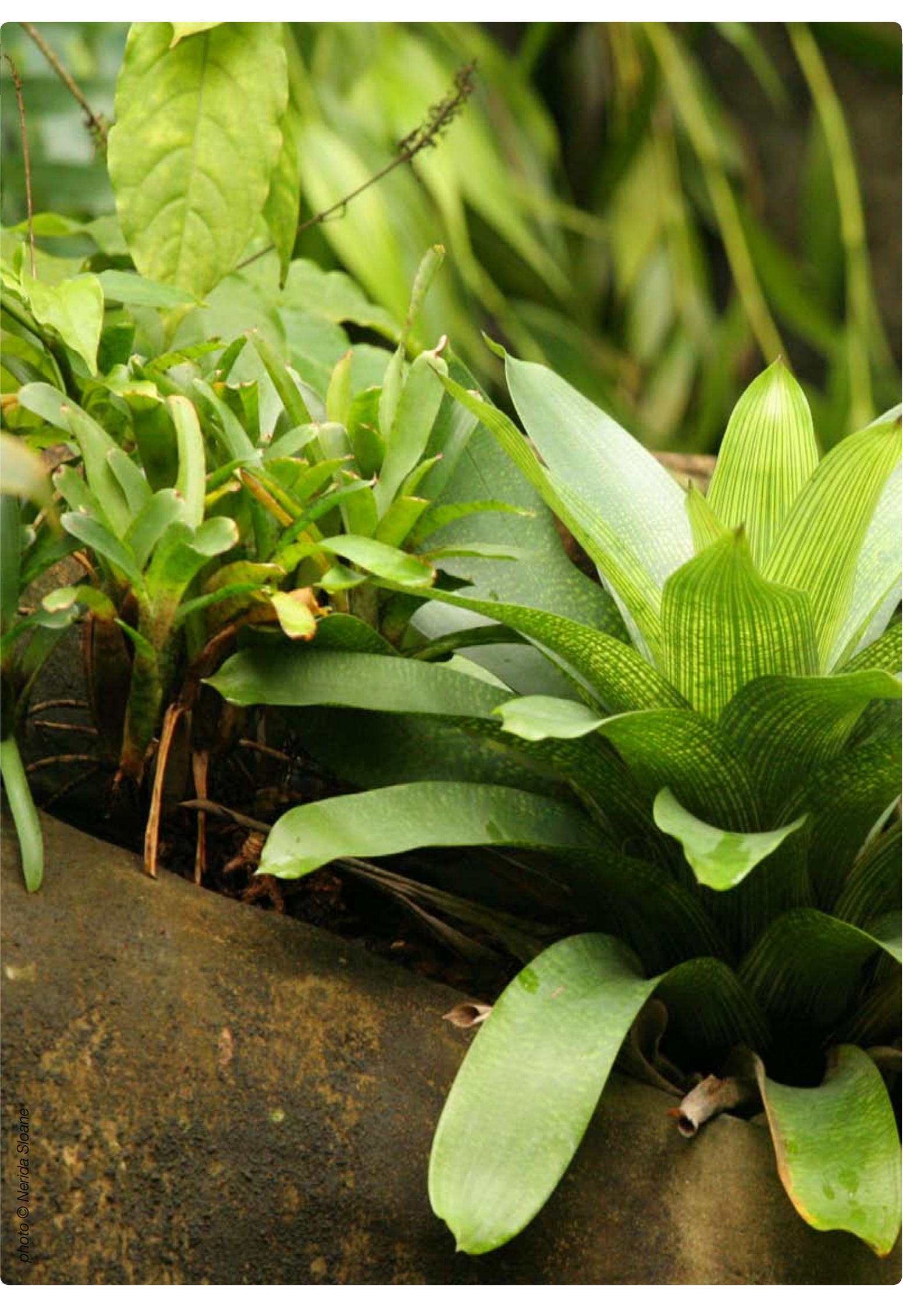


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THOMAS DAVIS & CO.

(ESTABLISHED 1894)

CHARTERED ACCOUNTANTS

Liability limited by a scheme approved
under Professional Standards Legislation

11 November 2008

The Directors
Australian Ethical Investment Limited
Block E, Trevor Pearcey House
Traefer Court, 34 Thynne Street
BRUCE ACT 2617

Dear Sirs,

Independent Review Report to the Directors

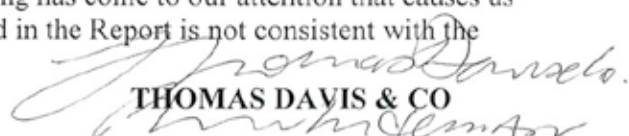
The 2008 Sustainability Report ("the Report") of Australian Ethical Investment Limited summarises the economic, environmental and social performance of Australian Ethical Investment Limited for the period 1 July, 2007 to 30 June, 2008. Australian Ethical Investment Limited management is responsible for the content of the Report. We agreed with Australian Ethical Investment Limited management to independently review the financial data (including paper use, energy use, employee, office space and waste data) in the Report and to report on the scope of our review procedures and our findings.

We have conducted our review in accordance with Australian Assurance Engagements Standard AUS 108 "Framework for Assurance Engagements" and relevant Australian Auditing Standards. The level of testing and verification undertaken in this review provide less assurance than an audit and does not allow us to provide an audit opinion.

Our review work included:

- Interviews with management responsible for financial data reporting.
- Review of systems and procedures used during the collation and reporting of the financial data.
- Review of the financial data to test the accuracy and reliability of the financial data with source documentation, on a sample basis; and
- Review of the Report in respect of financial data to assess consistency with the findings of the work completed.

Based on our review, we report that nothing has come to our attention that causes us to believe that the financial data presented in the Report is not consistent with the source documentation.


THOMAS DAVIS & CO

P.L. WHITEMAN PARTNER

Chartered Accountants



www.thomasdavis.com.au





Appendix A – Organisations awarded grants under Australian Ethical’s community grants program – 2008

\$60 000

- Bluegreen Films/Documentary Australia Foundation

\$50 000

- Medical Students’ Aid Project

\$7 900

- Barefoot Economy
- Engineers Without Borders

\$5 000

- Australian Marine Conservation Society
- WaterAid Australia
- ACT Eden Monaro Cancer Support Group
- New Internationalist Publications
- Edmund Rice Centre for Justice and Community Education
- Pedal Power ACT

\$3 000

- Fair Trade Association of Australia and New Zealand
- Animals Asia Foundation (Australia)
- Child Wise
- Rainforest Rescue
- Royal Institute for Deaf and Blind Children
- Sustainable Maleny
- The Qld. Society for Crippled Children
- Asian Women at Work
- Bush Heritage Australia
- Clean Ocean Foundation
- Romero Centre
- Trees For Life
- Broken Hill & District Hearing Resource Centre
- Kuusa Services Centre
- The Australian Conservation Foundation

Appendix B – Organisations awarded grants under Australian Ethical’s community grants program – 2007

\$50 000

- The Australia Institute: teaching materials on climate change for Australian Schools

\$10 000

- The National Trust of Australia (ACT) – St Johns Church Heritage Conservation Fund: conservation of the Golden Sun Moth and its habitat
- Engineers Without Borders: improving the curriculum, teaching capacity and graduate success of the Cambodian School of Prosthetic and Orthotics (CSPO)
- Friends of the Earth Australia: anti-nuclear campaigns

\$6 600

- ACT Eden Monaro Cancer Support Group
- Barefoot Economy
- Australian Marine Conservation Society
- Camp Quality
- Australians for Disability and Diversity Employment
- Pedal Power ACT
- WIRES (NSW Wildlife Information, Rescue and Education Service)
- Bicycle Federation of Australia
- NRMA CareFlight
- WaterAid Australia

\$2 900

- Animal Liberation NSW
 - Asylum Seeker Resource Centre
 - Australian Crohn’s & Colitis Association
 - Australian Drug Foundation
 - Canberra Environment and Sustainability Resource Centre
 - Conservation Council south east region and Canberra
 - Edgar’s Mission
 - Head High
 - Hepburn Wildlife Shelter
 - National Parks Association of New South Wales
 - Rainforest Rescue
 - Respite Care Bega Valley
 - Aid/Watch
 - Animals Asia Foundation (Australia)
 - Chrysalis Insight Incorporated
 - Fair Trade Association of Australia and New Zealand
 - opeStreet Urban Compassion
 - International Women’s Development Agency
 - Kids Under Cover
 - Mineral Policy Institute
 - New Internationalist Publications
 - Prison Fellowship Australia (Victoria)
 - Vulcana Women’s Circus
 - Darling Range Wildlife Shelter
 - Marine Stewardship Council (Asia Pacific)
 - The Friends of Oolong
 - Wildlife Preservation Society of Queensland
-

Global reporting initiative indicators

GRI content index. Source: Global reporting initiative (GRI) G3 guidelines.

PROFILE	Page No.	Reason for omission
1. STRATEGY AND ANALYSIS		
1.1 Statement from the most senior decision maker of the organisation (e.g., CEO, chair, or equivalent senior position) about the relevance of sustainability to the organisation and its strategy.	4 - 5	
1.2 Description of key impacts, risks, and opportunities.	4 - 5	
2. ORGANISATIONAL PROFILE		
2.1 Name of the organisation.	6	
2.2 Primary brands, products, and/or services.	6	
2.3 Operational structure of the organisation, including main divisions, operating companies, subsidiaries, and joint ventures.	6	
2.4 Location of organisation's headquarters.	6	
2.5 Number of countries where the organisation operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report.	6	
2.6 Nature of ownership and legal form.	6	
2.7 Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries).	6	
2.8 Scale of the reporting organisation, including: <ul style="list-style-type: none"> • Number of employees; • Net sales (for private sector organisations) or net revenues (for public sector organisations); • Total capitalisation broken down in terms of debt and equity (for private sector organisations); and • Quantity of products or services provided. 	6	
2.9 Significant changes during the reporting period regarding size, structure, or ownership including: <ul style="list-style-type: none"> • The location of, or changes in operations, including facility openings, closings, and expansions; and • Changes in the share capital structure and other capital formation, maintenance, and alteration operations (for private sector organisations). 	6	
2.10 Awards received in the reporting period.	7	
3. REPORT PARAMETERS		
Report Profile		
3.1 Reporting period (e.g., fiscal/calendar year) for information provided.	3	
3.2 Date of most recent previous report (if any).	3	
3.3 Reporting cycle (annual, biennial, etc.)	3	
3.4 Contact point for questions regarding the report or its contents.	3	
Report Scope and Boundary		
3.5 Process for defining report content, including: <ul style="list-style-type: none"> • Determining materiality; • Prioritising topics within the report; and • Identifying stakeholders the organisation expects to use the report. 	50	
3.6 Boundary of the report (e.g., countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers).	3	
3.7 State any specific limitations on the scope or boundary of the report.	3	
3.8 Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organisations.	3	
3.9 Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the Indicators and other information in the report.	3	
3.10 Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement (e.g., mergers/ acquisitions, change of base years/periods, nature of business, measurement methods).	3	
3.11 Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report.	3	

Global reporting initiative indicators

PROFILE	Page No.	Reason for omission
GRI Content Index		
3.12 Table identifying the location of the Standard Disclosures in the report. Identify the page numbers or web links where the following can be found: <ul style="list-style-type: none"> • Strategy and Analysis 1.1 – 1.2; • Organisational Profile 2.1 – 2.10; • Report Parameters 3.1 – 3.13; • Governance, Commitments, and Engagement 4.1 – 4.17; • Disclosure of Management Approach, per category; • Core Performance Indicators; • Any GRI Additional Indicators that were included; and • Any GRI Sector Supplement Indicators included in the report. 	55	
Assurance		
3.13 Policy and current practice with regard to seeking external assurance for the report. If not included in the assurance report accompanying the sustainability report, explain the scope and basis of any external assurance provided. Also explain the relationship between the reporting organisation and the assurance provider(s).	50, 52	
4. GOVERNANCE, COMMITMENTS, AND ENGAGEMENT		
Governance		
4.1 Governance structure of the organisation, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organisational oversight.	12 - 13	
4.2 Indicate whether the Chair of the highest governance body is also an executive officer (and, if so, their function within the organisation's management and the reasons for this arrangement).	12	
4.3 For organisations that have a unitary board structure, state the number of members of the highest governance body that are independent and/or non-executive members.	12	
4.4 Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body. Include reference to processes regarding: <ul style="list-style-type: none"> • The use of shareholder resolutions or other mechanisms for enabling minority shareholders to express opinions to the highest governance body; and • Informing and consulting employees about the working relationships with formal representation bodies such as organisation level 'work councils', and representation of employees in the highest governance body. Identify topics related to economic, environmental, and social performance raised through these mechanisms during the reporting period. 	17 - 19	
4.5 Linkage between compensation for members of the highest governance body, senior managers, and executives (including departure arrangements), and the organisation's performance (including social and environmental performance).	14 - 15	
4.6 Processes in place for the highest governance body to ensure conflicts of interest are avoided.	12, 14	
4.7 Process for determining the qualifications and expertise of the members of the highest governance body for guiding the organisation's strategy on economic, environmental, and social topics.	12 - 13	
4.8 Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation. Explain the degree to which these: <ul style="list-style-type: none"> • Are applied across the organisation in different regions and department/units; and • Relate to internationally agreed standards. 	11, 14	
4.9 Procedures of the highest governance body for overseeing the organisation's identification and management of economic, environmental, and social performance, including relevant risks and opportunities, and adherence or compliance with internationally agreed standards, codes of conduct, and principles.	12	
4.10 Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance.	12	
Commitments to External Initiatives		
4.11 Explanation of whether and how the precautionary approach or principle is addressed by the organisation.	16	

PROFILE	Page No.	Reason for omission
4.12 Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organisation subscribes or endorses.	16	
4.13 Memberships in associations (such as industry associations) and/or national/international advocacy organisations in which the organisation: <ul style="list-style-type: none"> • Has positions in governance bodies; • Participates in projects or committees; • Provides substantive funding beyond routine membership dues; or • Views membership as strategic. 	16	
Stakeholder Engagement		
4.14 List of stakeholder groups engaged by the organisation. Examples of stakeholder groups are: <ul style="list-style-type: none"> • Communities; • Civil society; • Customers; • Shareholders and providers of capital; • Suppliers; and • Employees, other workers, and their trade unions. 	17	
4.15 Basis for identification and selection of stakeholders with whom to engage.	17, 50	
4.16 Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group.	17 - 19	
4.17 Key topics and concerns that have been raised through stakeholder engagement, and how the organisation has responded to those key topics and concerns, including through its reporting.	17 - 19	
5. MANAGEMENT APPROACH AND PERFORMANCE INDICATORS		
Economic Performance Indicators		
Disclosure on Management Approach	46 - 49	
Aspect: Economic Performance		
EC1 Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments. (Core)	47 - 48	
EC2 Financial implications and other risks and opportunities for the organisation's activities due to climate change. (Core)	48	
EC3 Coverage of the organisation's defined benefit plan obligations. (Core)	48	
EC4 Significant financial assistance received from government. (Core)	48	
Aspect: Market Presence		
EC5 Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation. (Additional)	-	Australian Ethical was not able to collect this information for the 2007-08 report. The company aims to include this indicator in the future.
EC6 Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation. (Core)	48	
EC7 Procedures for local hiring and proportion of senior management hired from the local community at locations of significant operation. (Core)	49	
Aspect: Indirect Economic Impacts		
EC8 Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement. (Core)	49	
EC9 Understanding and describing significant indirect economic impacts, including the extent of impacts. (Additional)	-	Australian Ethical was not able to collect this information for the 2007-08 report. The company aims to include this indicator in the future.
Environmental Performance Indicators		
Disclosure on Management Approach	36 - 44	
Aspect: Materials		
EN1 Materials used by weight or volume. (Core)	36 - 37	
EN2 Percentage of materials used that are recycled input materials. (Core)	36 - 37	

Global reporting initiative indicators

PROFILE	Page No.	Reason for omission
Aspect: Energy		
EN3 Direct energy consumption by primary energy source. (Core)	38	
EN4 Indirect energy consumption by primary source. (Core)	38	
EN5 Energy saved due to conservation and efficiency improvements. (Additional)	38 - 39	
EN6 Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives. (Additional)	38 - 39	
EN7 Initiatives to reduce indirect energy consumption and reductions achieved. (Additional)	38 - 39	
Aspect: Water		
EN8 Total water withdrawal by source.	40	
EN9 Water sources significantly affected by withdrawal of water. (Additional)	-	Water is supplied to Australian Ethical's offices by ActewAGL. ActewAGL provides water services to the people of the Australian Capital Territory (ACT). The ACT draws its water supply from two separate catchment systems, the Cotter River catchment and the Googong system. These water sources are not significantly affected by Australian Ethical's water use.
EN10 Percentage and total volume of water recycled and reused. (Additional)	-	During 2007–08 zero cubic metres of water were recycled/re-used (zero per cent of total water use). Trevor Pearcey House does have rainwater tanks which collect water from the roof for use in flushing the toilets; however, this is not counted under this indicator.
Aspect: Biodiversity		
EN11 Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas. (Core)	-	Australian Ethical's offices during 2007–08 were located in an urban environment in the Canberra suburb of Bruce which is not located in, or adjacent to, protected areas or areas of high biodiversity value.
EN12 Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas. (Core)	-	Australian Ethical, through its activities, products and services, seeks to preserve endangered eco-systems and biodiversity. During 2007–08 the company did not have a significant impact on biodiversity in protected areas and areas of high biodiversity value outside protected areas.
EN13 Habitats protected or restored. (Additional)	-	During 2007–08 Australian Ethical was not directly involved in the protection or restoration of habitat.
EN14 Strategies, current actions, and future plans for managing impacts on biodiversity. (Additional)	-	As outlined in the Australian Ethical Charter, Australian Ethical seeks to preserve endangered eco-systems and biodiversity. In addition to selecting every investment with which we are involved in accordance with the Charter, Australian Ethical aims to conduct its operations in accordance with the tenets of the Charter.

PROFILE	Page No.	Reason for omission
EN15 Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk. (Additional)	-	Australian Ethical's offices during 2007–08 were located in an urban environment in the Canberra suburb of Bruce. There are no IUCN Red List species or national conservation list species with habitats in the area affected by operations.
Aspect: Emissions, Effluent, and Waste		
EN16 Total direct and indirect greenhouse gas emissions by weight. (Core)	42 - 44	
EN17 Other relevant indirect greenhouse gas emissions by weight. (Core)	42 - 44	
EN18 Initiatives to reduce greenhouse gas emissions and reductions achieved. (Additional)	39, 41 - 44	
EN19 Emissions of ozone-depleting substances by weight. (Core)	-	Australian Ethical is an office based company. Emissions of ozone-depleting substances is considered to be a non-material issue for Australian Ethical. The company does not currently measure or report on this issue.
EN20 NO, SO, and other significant air emissions by type and weight. (Core)	-	Australian Ethical is an office based company. Emissions of NO _x , SO _x , and other air emissions is considered to be a non-material issue for Australian Ethical. The company does not currently measure or report on this issue.
EN21 Total water discharge by quality and destination. (Core)	-	Water discharged by Australian Ethical is limited to rainwater and domestic sewage. The company does not discharge effluents or process water to a facility for treatment.
EN22 Total weight of waste by type and disposal method. (Core)	41 - 43	
EN23 Total number and volume of significant spills. (Core)	-	As an office based company, Australian Ethical does not directly handle oil or fuel; however, small amounts of cleaning products are stored on-site. There were no significant spills recorded during 2007–08.
EN24 Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally. (Additional)	-	The majority of Australian Ethical's waste is general office waste, not deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII. A small proportion may be considered hazardous (e.g. batteries etc); however, this is not considered to be material.
EN25 Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organisation's discharges of water and runoff. (Additional)	-	As noted above, water discharged by Australian Ethical is limited to rainwater and domestic sewage. The limited amount of runoff from Trevor Pearcey House does not significantly affect the biodiversity value of the local urban water bodies, Lake Burley Griffin and Lake Ginninderra.





Global reporting initiative indicators

PROFILE	Page No.	Reason for omission
Aspect: Products and Services		
EN26 Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation. (Core)	10	
EN27 Percentage of products sold and their packaging materials that are reclaimed by category. (Core)	-	With the exception of marketing documents, Australian Ethical does not produce a physical product that can be recycled at the end of its useful life. Enquirers receiving Australian Ethical's marketing documents may recycle the paper; however, it is unclear what percentage of the total documents mailed this would comprise.
Aspect: Compliance		
EN28 Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with environmental laws and regulations. (Core)	44	
Aspect: Transport		
EN29 Significant environmental impacts of transporting products and other goods and materials used for the organisation's operations, and transporting members of the workforce. (Additional)	40 - 44	
Aspect: Overall		
EN30 Total environmental protection expenditures and investments by type. (Additional)	44	
Labour Practices and Decent Work Performance Indicators		
Disclosure on Management Approach	19 - 28	
Aspect: Employment		
LA1 Total workforce by employment type, employment contract, and region.	19 - 21	
LA2 Total number and rate of employee turnover by age group, gender, and region.	23 - 24	
LA3 Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations. (Additional)	27	
Aspect: Labour/Management Relations		
LA4 Percentage of employees covered by collective bargaining agreements. (Core)	-	All of Australian Ethical's staff are employed under individual contracts due to the size of the company and the diversity of positions held by employees within it.
LA5 Minimum notice period(s) regarding operational changes, including whether it is specified in collective agreements. (Core)	-	Australian Ethical does not have a minimum period for notifying employees of any substantial operational changes. The company has stated, however, that a minimum of three months' notice will be given to any employee whose position has been made redundant due to business restructuring.
Aspect: Occupational Health and Safety		
LA6 Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs. (Additional)	-	Australian Ethical does not have a joint management /worker health and safety committee. However, employees are encouraged to raise potential occupational health and safety issues with their manager, the human resources manager or office administrator. This is stressed in the induction process.
LA7 Rates of injury, occupational diseases, lost days, and absenteeism, and number of work related fatalities by region. (Core)	27 - 28	

PROFILE	Page No.	Reason for omission
LA8 Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases. (Core)	-	Australian Ethical is not present in countries with high rates of communicable diseases nor is it in an industry linked to specific diseases or conditions. The company, therefore, does not have targeted education in this area.
LA9 Health and safety topics covered in formal agreements with trade unions. (Additional)	-	Australian Ethical does not have formal agreements with trade unions.
Aspect: Training and Education		
LA10 Average hours of training per year per employee by employee category. (Core)	25 - 26	
LA11 Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings. (Additional)	25 - 26	
LA12 Percentage of employees receiving regular performance and career development reviews. (Additional)	25	
Aspect: Diversity and Equal Opportunity		
LA13 Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity. (Core)	21 - 22	Australian Ethical currently only collects data on the gender breakdown of governance bodies and employee groups. The company is looking at reporting additional diversity indicators in the future.
LA14 Ratio of basic salary of men to women by employee category. (Core)	22 - 23	
Human Rights Performance Indicators		
Disclosure on Management Approach	29	
Aspect: Investment and Procurement Practices		
HR1 Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening. (Core)	29	
HR2 Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken. (Core)	29	
HR3 Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained. (Additional)	29	
Aspect: Non-Discrimination		
HR4 Total number of incidents of discrimination and actions taken. (Core)	29	
Aspect: Freedom of Association and Collective Bargaining		
HR5 Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk, and actions taken to support these rights. (Core)	29	
Aspect: Child Labour		
HR6 Operations identified as having significant risk for incidents of child labor, and measures taken to contribute to the elimination of child labor. (Core)	29	
Aspect: Forced and Compulsory Labour		
HR7 Operations identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of forced or compulsory labor. (Core)	29	
Aspect: Security Practices		
HR8 Percentage of security personnel trained in the organisation's policies or procedures concerning aspects of human rights that are relevant to operations. (Additional)	29	
Aspect: Indigenous Rights		
HR9 Total number of incidents of violations involving rights of indigenous people and actions taken. (Additional)	29	
Society Performance Indicators		
Disclosure on Management Approach	30 - 31	
Aspect: Community		
SO1 Nature, scope, and effectiveness of any programs and practices that assess and manage the impacts of operations on communities, including entering, operating, and exiting. (Core)	30	

PROFILE	Page No.	Reason for omission
Aspect: Corruption		
SO2 Percentage and total number of business units analysed for risks related to corruption. (Core)	30 - 31	
SO3 Percentage of employees trained in organisation's anti-corruption policies and procedures. (Core)	30 - 31	
SO4 Actions taken in response to incidents of corruption. (Core)	30 - 31	
Aspect: Public Policy		
SO5 Public policy positions and participation in public policy development and lobbying. (Core)	31	
SO6 Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country. (Additional)	31	
Aspect: Anti-Competitive Behaviour		
SO7 Total number of legal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes. (Additional)	31	
Aspect: Compliance		
SO8 Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with laws and regulations. (Core)	31	
Product Responsibility Performance Indicators		
Disclosure on Management Approach	32 - 35	
Aspect: Customer Health and Safety		
PR1 Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures. (Core)	-	Investment products and services provided by the company do not fall into the parameters of this particular indicator. However, the company does consider the health and safety impacts of investee products as outlined in the Australian Ethical Charter.
PR2 Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes. (Additional)	-	As with the PR1 indicator above, while certain regulations and codes with regards to health and safety impacts are considered through the Australian Ethical Charter, the incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of business products and services are not relevant to company operations. Investment products and services provided by the company do not fall into the parameters of this particular indicator.
Aspect: Product and Service Labelling		
PR3 Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements. (Core)	35	
PR4 Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling, by type of outcomes. (Additional)	35	
PR5 Practices related to customer satisfaction, including results of surveys measuring customer satisfaction. (Additional)	35	
Aspect: Marketing Communications		
PR6 Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship. (Core)	35	
PR7 Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship by type of outcomes. (Additional)	35	
Aspect: Customer Privacy		
PR8 Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data. (Additional)	35	
Aspect: Compliance		
PR9 Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services. (Core)	31, 35	

GRI Application Level

Report Application Level		C	C+	B	B+	A	A+
		Report on: 1.1 2.1 - 2.10 3.1 - 3.8, 3.10 - 3.12 4.1 - 4.4, 4.14 - 4.15	Report Externally Assured	Report on all criteria listed for Level C plus: 1.2 3.9, 3.13 4.5 - 4.13, 4.16 - 4.17	Report Externally Assured	Same as requirement for Level B	Report Externally Assured
		Not Required		Management Approach Disclosures for each Indicator Category		Management Approach Disclosures for each Indicator Category	
		Report on a minimum of 10 Performance Indicators, including at least one from each of: Economic, Social and Environmental.		Report on a minimum of 20 Performance Indicators, at least one from each of Economic, Environmental, Human rights, Labor, Society, Product Responsibility.		Report on each core G3 and Sector Supplement* Indicator with due regard to the Materiality Principle by either: a) reporting on the Indicator or b) explaining the reason for its omission.	
*Sector supplement in final version							

Financial services: social performance indicators

Source: Global reporting initiative financial services sector supplement: social performance, November 2002.

SOCIAL PERFORMANCE INDICATORS (SPIs)	Page No.	Reason for omission
Corporate Social Responsibility (CSR) Management		
Management System		
CSR1 CSR Policy: Description of social elements of the CSR policy, including corporate definition of CSR.	11	
CSR2 CSR Organisation: Description of the structure and relevant CSR responsibilities, including explanation of the installed procedures.	12	
CSR3 CSR Audits: Number of audits and auditor hours.	50	
Sensitive Issues		
CSR4 Management of Sensitive Issues: Description of the procedures for handling issues sensitive to stakeholders and responsiveness.	17 - 19	
Compliance		
CSR5 Non-Compliance: Number of non-compliance incidents with any law or regulatory code of conduct.	31	
Participation	17 - 19	
CSR6 Stakeholder Dialogue: Description of stakeholder dialogue and involvement procedures.		
Internal Social Performance		
Policy		
INT1 Internal CSR Policy: Description of social responsibility issues covered in the company's human resources policies.	11	
Employment and Social Protection	23 - 24	
INT2 Staff Turnover and Job Creation		
INT3 Employee Satisfaction: Employee satisfaction, based on survey results, covering:	17 - 18	
<ul style="list-style-type: none"> • job security • remuneration & benefits • work/life-balance (including work pressure and stress) • training & development • internal communication culture • company's social performance towards society. 		

SOCIAL PERFORMANCE INDICATORS (SPIs)	Page No.	Reason for omission
Compensation		
INT4 Senior Management Remuneration: Remuneration of senior management and board of directors. Includes all compensation	14 - 15	
INT5 Bonuses Fostering Sustainable Success: Bonuses that are not oriented purely towards short term financial success, but which contain additional sustainability elements.	14 - 15	
Equal Opportunity		
INT6 Female-Male Salary Ratio: Ratio of female to male salaries including bonuses, etc. per hierarchy level.	23	
INT7 Employee Profile: Employee profile per hierarchy level and country according to: <ul style="list-style-type: none"> gender ethnicity (for countries where this issue is of high relevance) disability 	21 - 22	Australian Ethical currently only collects data on the gender breakdown of employee groups. The company is looking at reporting additional diversity indicators in the future.
Performance to Society		
Contributions		
SOC1 Charitable Contributions: Contributions to charitable causes, community investments and commercial sponsorships.	30, 46	
Economic Value Creation		
SOC2 Economic Value Added: 'Value added' expresses the economic value created by a company's activities.	-	Australian Ethical was not able to collect this information for the 2007-08 report. The company aims to include this indicator in the future.
Suppliers		
Performance of Suppliers		
SUP1 Screening of Major Suppliers: Policy and procedures to screen suppliers' social performance.	-	Australian Ethical currently does not screen major suppliers.
Performance towards Suppliers		
SUP2 Supplier Satisfaction: Supplier satisfaction with e.g., prompt payment, prices and treatment.	-	Australian Ethical currently does not monitor supplier satisfaction although there are no recorded complaints from suppliers.
Asset Management		
Policy		
AM1 Asset Management Policy (socially relevant elements): Social criteria applied by the reporting organisation in Asset Management.	11, 32 - 34	
Fostering Social Capital		
AM2 Assets under Management with High Social Benefit: Provision of tailored and innovative products and services applying special positive ethical/sustainability criteria.	32 - 34	
AM3 SRI Oriented Shareholder Activity: Description of activities with companies invested in, where CSR issues either are raised in communications with board and management or explicitly considered when exercising shareholder rights.	32 - 35	

Financial services: environmental performance indicators

Source: Global reporting initiative financial services sector supplement: environmental performance, March 2005.

ENVIRONMENTAL PERFORMANCE INDICATORS (EPIs)	Page No.	Reason for omission
F1 Description of environmental policies applied to core business lines.	11	
F2 Description of process(es) for assessing and screening environmental risks in core business lines.	32 - 34	
F3 State the threshold(s) at which environmental risk assessment procedures are applied to each core business line.	32	
F4 Description of processes for monitoring clients' implementation of and compliance with environmental aspects raised in risk assessment process(es).	32 - 34	
F5 Description of process(es) for improving staff competency in addressing environmental risks and opportunities.	33	
F6 Number and frequency of audits that include the examination of environmental risk systems and procedures related to core business lines.	33 - 34	
F7 Description of interactions with clients/investee companies/business partners regarding environmental risks and opportunities.	10, 34	
F8 Percentage and number of companies held in the institution's portfolio with which the reporting organisation has engaged on environmental issues.	34	
F9 Percentage of assets subjected to positive, negative and best-in-class environmental screening.	32	
F10 Description of voting policy on environmental issues for shares over which the reporting organisation holds the right to vote shares or advise on voting.	32 - 35	
F11 Percentage of assets under management where the reporting organisation holds the right to vote shares or advise on voting.	34	
F12 Total monetary value of specific environmental products and services broken down according to the core business lines.	46	
F13 Value of portfolio for each core business line broken down by specific region and by sector.	32 - 34	

Abbreviation	Expanded name	Definition
FTE	full-time equivalent	Term used to express full-time and part-time staff on an equivalent full-time basis.
GRI	Global Reporting Initiative	This promotes international harmonisation in the reporting of relevant and credible corporate environmental, social and economic performance information to enhance responsible decision-making.
J	Joule	Unit of energy.
kl	Kilolitre	1000 litres.
KWh	Kilowatt-hour	Measure of electrical energy equivalent to a power consumption of 1000 watts (1000 joules/second) for one hour. Note: 1 kWh = 3.6 MJ.
MJ	Mega joule	1 000 000 joules.
W	Watt	Unit of power, equivalent to one joule per second.

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PO Box 229
Belconnen ACT 2616

Phone: +61 2 6201 1900
Fax: +61 2 6201 1987

contact@caer.org.au
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