

# Australian Ethical<sup>®</sup> Investment

for Investors, Society and the Environment

## ASX Announcement

ASX Code: AEF

Date: 24 November 2005

### **CEO's AGM presentation and responses to written questions**

AEI's Chief Executive Officer will deliver the attached presentation to AEI's AGM which will be conducted this evening. The slides referred to in the CEO's presentation are provided at the end of the presentation.

Also included are responses to written questions which will be delivered at the AGM.

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## CEO PRESENTATION AT AGM

***Slide 1 - AEI LOGO***

***Slide 2 - AGM Introduction***

***Slide 3 - Mission Statement***

Good evening ladies and gentlemen and welcome to the Annual General Meeting of Australian Ethical Investment Ltd.

The 2004/2005 financial year has been another great one for the Group. We have achieved a record profit and our business has grown strongly. This is especially pleasing given the excellent result which was achieved in the previous year.

The Annual Report that you have all received contained a full set of financial statements. AEI prepares its financial statements in accordance with the requirements of the Corporations Act and the Australian Accounting Standards. I am sure you will have noted that our auditors, Thomas Davis and Co, have provided an unqualified opinion that the financial reports give a true and fair view of the Group's financial position. Ron Geeves and Peter Whiteman from Thomas Davis are in attendance this evening, welcome gentleman.

My presentation tonight will focus on the key highlights of the year and consider the challenges that lay ahead for us.

Our Funds under Management ('FUM') are our bread and butter. During 2004/2005 our FUM grew to \$311m ex distribution. The

distribution of \$48 million was a record one and around 78% of the distribution was reinvested in the Trusts.

#### ***Slide 4 - FUM Growth***

As you can see this growth has been very consistent. Funds under management is now around \$400m.

Flowing on from FUM growth, revenue grew strongly as did our Net Profit. Total revenue for the year was \$7.4m.

#### ***Slide 5 - Revenue***

The group achieved a consolidated net profit after tax of \$810,900, a record result. This result represents a 76% increase on the previous year, again a very pleasing outcome given the strong result in 2003/2004.

#### ***Slide 6 - Net Profit after Tax***

In light of the excellent results the directors are recommending shareholders approve a fully franked dividend of 72 cents per share. That is a final dividend of 42 cents along with the interim dividend of 30 cents which has already been paid.

### ***Slide 7 - Earnings per Share***

In deciding on the level of dividend the directors carefully consider the need to balance a return to our shareholders with the need to retain sufficient capital to support the on going growth of the Company. The full year dividend recommended is an increase of 38% on the previous year, and represents approximately 80% of earnings. The Company has retained 20% of the earnings to support future growth.

### ***Slide 8 - 4 Year Return on Equity***

Return on equity for the year has increased to 16.9% and is now edging back to the 2002 level.

In summary, during the 2004/2005 financial year we grew our revenue and funds under management and exceeded our internal profit projections. This is an excellent outcome for the company and our stakeholders. It has enabled us to pay a record tithe of \$98,227 and to distribute a bonus pool of \$144,809 to our staff as required under our Constitution.

Inflow is dependant in part, on the performance of the Trusts. Our trusts have continued to perform well and this year the Balanced Trust won the Standard and Poor's award for best Balanced Fund Neutral. This was a great result and significant publicity flowed from the receipt of the award.

Superannuation continues to be a very strong performer for the group. We have seen some very positive results which we believe are in part due to the introduction of Superannuation choice. Trustees of APRA regulated superannuation funds are now required to be licensed and entities wishing to provide superannuation need to be registered prior to 30 June 2006. Our licensing application was submitted in August this year and APRA have since conducted a prudential visit. I have no reason to believe the license will not be forthcoming. This has been a costly exercise. I estimate that the process has now cost well in excess of \$120,000.

I will now turn to a number of challenges the company will face as we go forward.

Firstly Australia has an ageing population and currently a low unemployment rate. We must ensure that we continue to strive to be an employer of choice, that we retain the excellent staff we currently have and are able to recruit quality new staff as required. As the profitability of AEI has improved we have endeavored to share this with the staff through improved salaries and conditions. We pride ourselves on being a consultative and flexible company and we will continue to seek input from the staff on what is important to them and balance this with legislative requirements and the obligations imposed under our Charter. We conduct an annual survey of our staff. The survey found that 80% of AEI staff are satisfied with their job, this is a very pleasing outcome. It is difficult to find industry comparisons but the Seek Intelligence

Survey of Employee Satisfaction and Motivation found that in the financial banking and insurance industry only 25% of respondents were happy with their jobs.

Other key challenges include building on the economies of scale we have achieved to date and ensuring we are maintaining our differentiation in the market. We continue to pursue strategies to support these outcomes.

The location of our business also presents challenges. The facilitation of the construction of an environmentally exemplary building has been very much a key focus during the last 12 months. Unfortunately to date we have been unable to secure a deal. . Our current lease expires at the end of June 2007. Our current space has served us well and allowed us to grow only paying for the space we have needed. However the premises are less than ideal and it has always been our intention to move when the opportunity presented itself. We are currently looking at purchase/refurbishment and lease options. Given that negotiations are ongoing and no decision has been made I do not intend to provide any further detail at this stage.

In October this year our only institutional investor, Ascalon Capital Management, sold their shareholding. Their shareholding was purchased by Select Managed Funds. SMF are well known to us as they have been providing administration services to our superannuation fund for a number of years and we welcome them as a shareholder. An AEI shareholder asked how we intended to deal with the conflict of interest arising from having a service

provider as the largest shareholder. At AEI we are very conscious of the need to deal with all conflicts of interest appropriately and we have a robust conflicts of interest policy for the management of conflicts as they arise. Like AEI, SMF is also an ASX listed company and I am sure that the Board and management of both companies understand that commercial arrangements between us must be conducted on a strictly arm's length basis.

Sustainability and Corporate Social Responsibility continue to be high profile issues for business leaders, governments and the general public. This is to be applauded and encouraged. Many more companies are producing Sustainability or Triple Bottom Line Reports. We have a limited number of our 2005 Sustainability Reports available tonight for those who may be interested or alternatively you can access the report via our website.

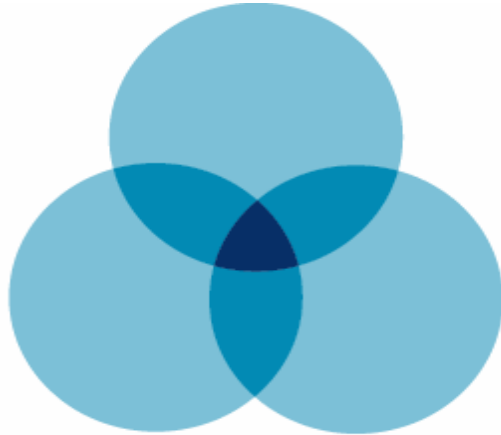
It is difficult to make any prediction about the future profitability of the Group given that ours is often a volatile industry. Management accounts for October 2005 indicate a significant improvement over the same period for the previous year. This is in part due to very strong inflow at the beginning of the financial year. We are cautiously optimistic of sustaining this improved performance for the first half and hopefully for the full year. Announcements will be made to the market as required under the Listing Rules.

AEI has no plans to change strategic direction. We will continue to grow organically and our "deep green" Ethical Charter will continue to be the guiding force for our investments and the operations of the company and its subsidiary. With specific reference to a

question from a shareholder, at this time we do not intend to change our entry fee structure and we do not intend to set up any advisory services. However these are issues that are kept under review.

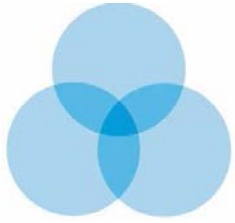
I would also like to thank you our shareholders and our investors for your continued support and also publicly thank all the staff or AEI for their diligence and hard work.

Gary Leckie our Staff Advocate will now make a short presentation. The staff advocate is elected by the staff for a 2 year term, this is Gary's second term as staff advocate. The primary function of the Staff Advocate is to voice the views, concerns and position of staff at a board level within AEI. In particular, it is their role to present a 'non-management' staff perspective to the board on relevant policies and issues.



# **Australian Ethical** Investment + Superannuation

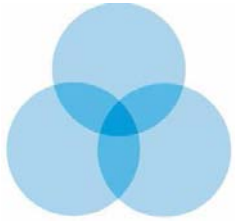
For Investors, Society And The Environment



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**Australian Ethical Investment Ltd  
Annual General Meeting  
Thursday 24 November 2005**

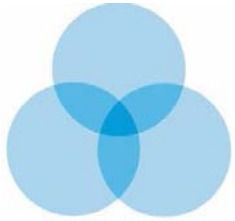
**Anne O'Donnell  
Chief Executive Officer**



# Australian Ethical's Mission

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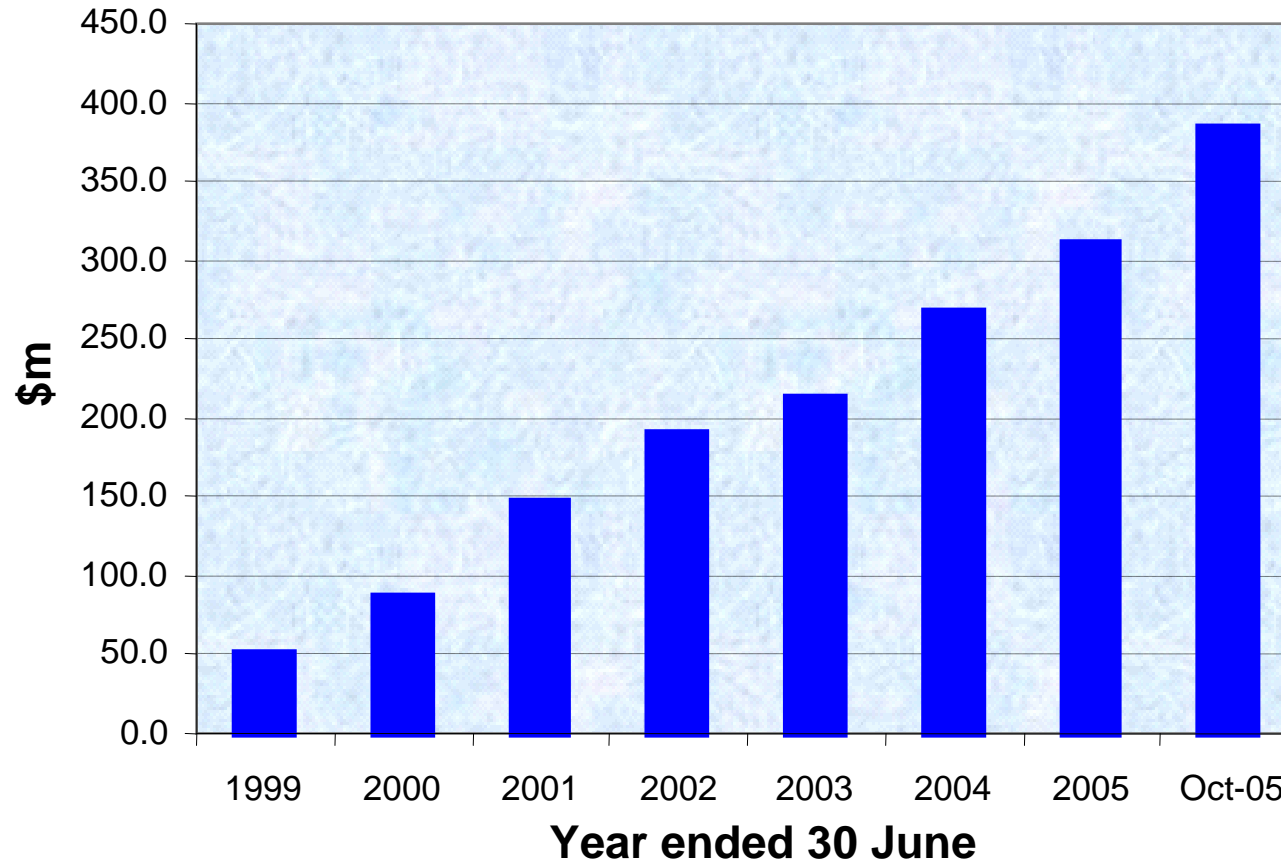
Australian Ethical's mission is to provide those investors who share our social and environmental aims (as set out in our charter) with the means to earn a competitive return for chosen risk whilst at the same time contributing to a just and sustainable human society and the protection of the natural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

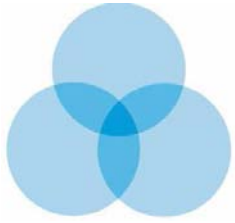


# AEI Funds Under Management

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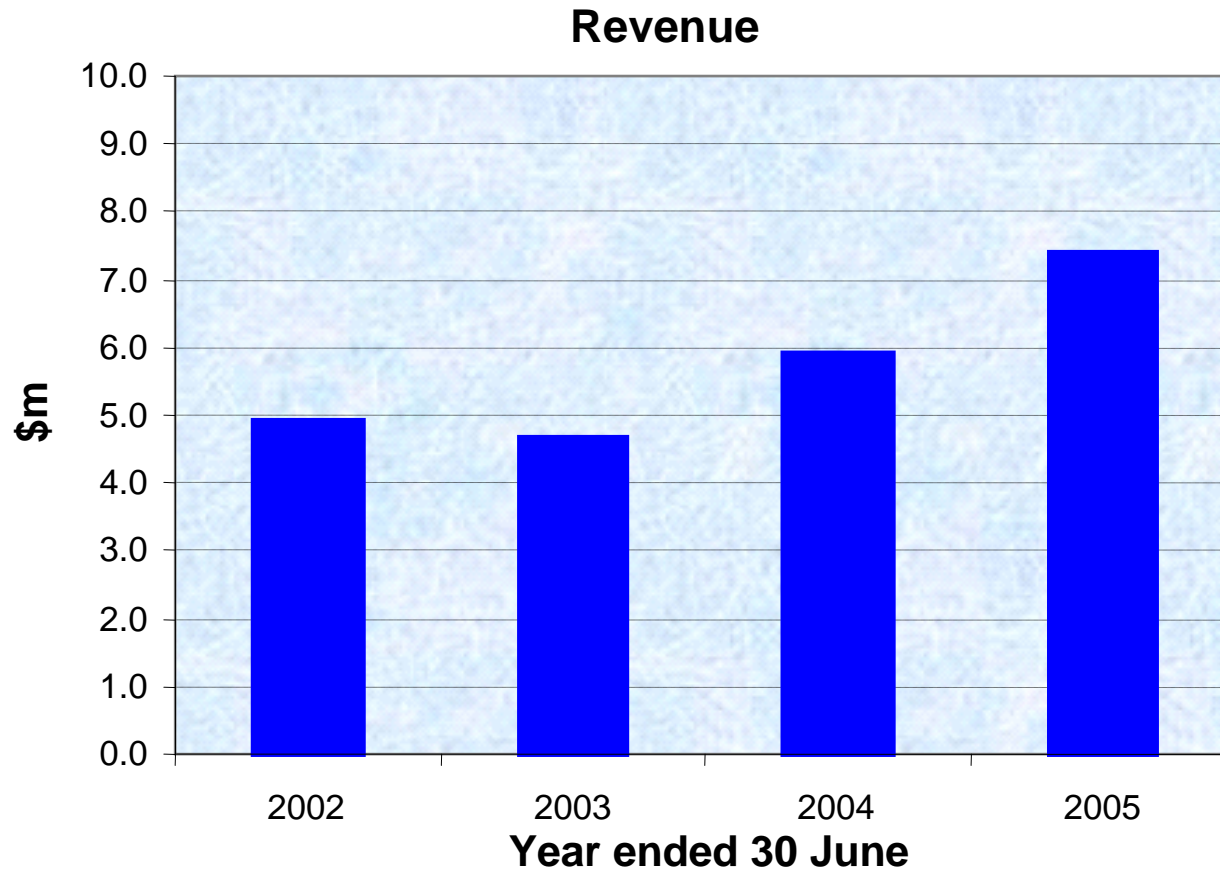
## Funds Under Management Growth

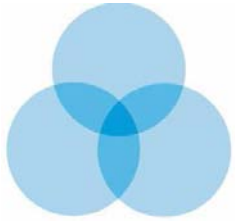




# Revenue

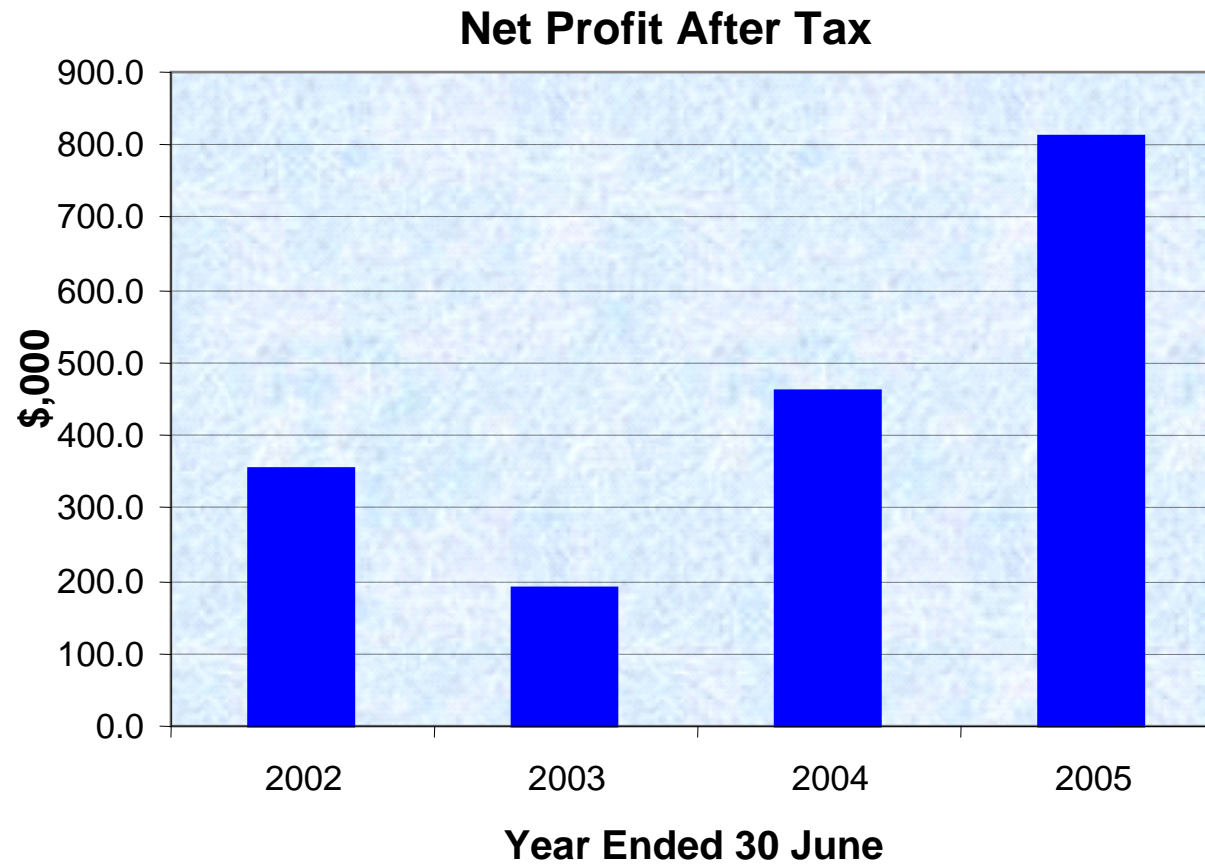
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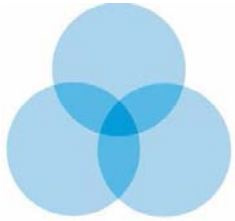




# Net Profit after Tax

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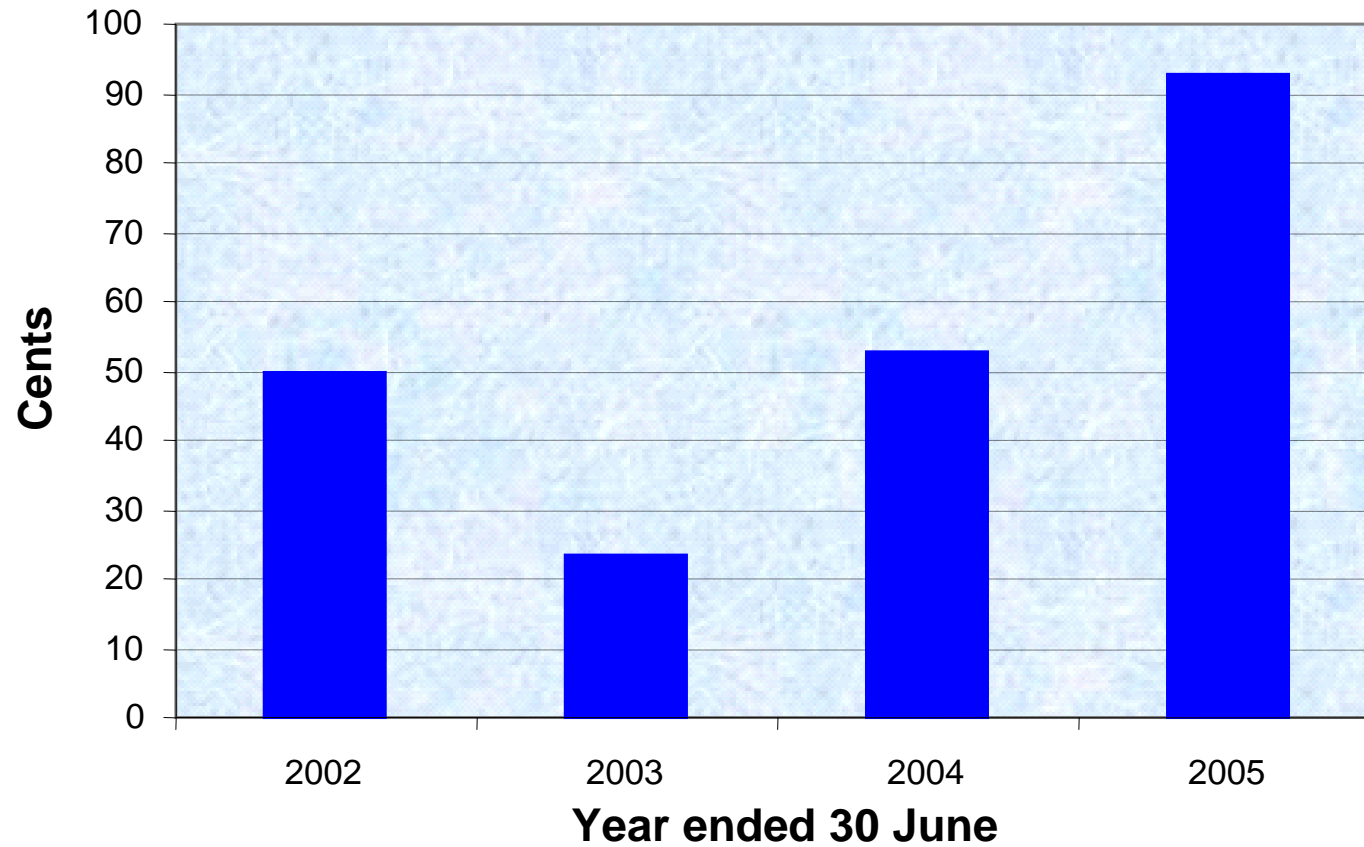


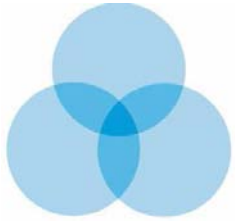


# Earnings per Share

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**Earnings Per Share**

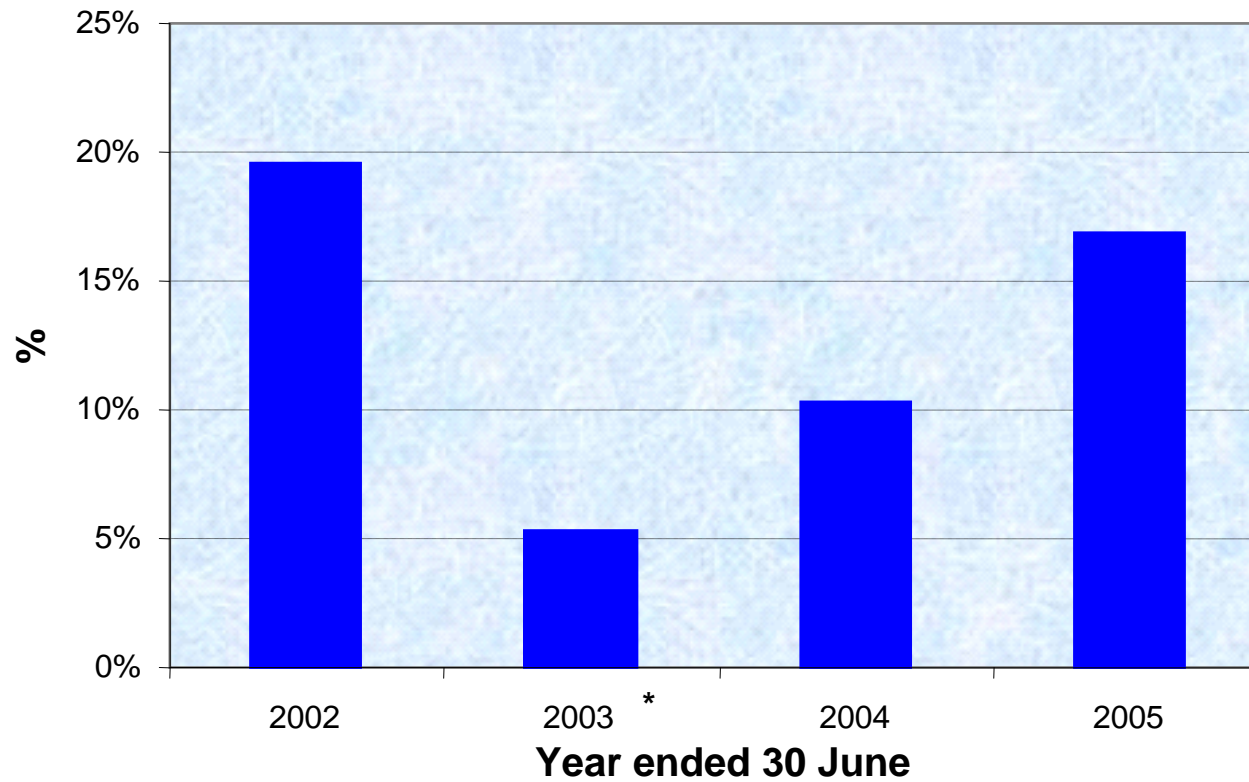




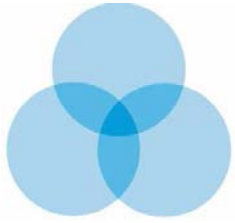
# 4 year Return to June 2005

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## Return on Equity

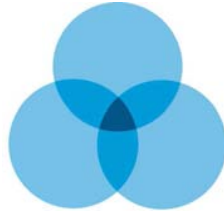


\* Listed on ASX, expanded capital base.



**“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



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## ANNUAL GENERAL MEETING 24 NOVEMBER 2005

### QUESTIONS FROM SHAREHOLDERS

As part of the 2005 Annual General Meeting, directors invited shareholders to ask written questions.

The CEO's address contains responses to a number of the questions received. We have also provided below written responses to questions (grouped into themes).

### Corporate Governance

*What is the company doing to ensure that its ethical standards and corporate governance arrangements are in accordance with the Australian Ethical Charter and meet best practice?*

*Why is an increase in director remuneration being sought?*

*George Pooley*

The AEI Ethical Charter is incorporated into the AEI company constitution. Indeed, all legal constituting documents for the AEI group include the AEI charter. This reflects deliberate board policy designed to ensure the spirit of the charter is evident in the day to day running of the company. While it is easy to level the accusation that the company has acted in some way unethically, the directors are confident that all decisions taken by the Board and management have given due consideration of the Charter.

The company's directors support the best practice recommendations set down by the ASX Corporate Governance Council and our Corporate Governance Statement is set out in full in the Annual Report. The company meets the majority of the best practice recommendations, and explains its position in those areas where the recommendations

are not met. It should be remembered that the ASX recommendations need to be implemented having regard to the needs of individual companies.

The directors continue to monitor the composition of the board. Decisions on future appointments will be guided by whether the board considers it has the right balance of director competencies to further the Ethical Charter and ensure the long term viability of the company. The environment in which the company operates is dynamic and the company is growing. It is foreseeable that the competencies required will also change over time. Assuming the availability of suitably qualified candidates the directors expect that over time the composition of the Board will move to a majority of independent directors.

As the profitability of the company has improved we have endeavoured to increase both the remuneration of our staff and also our directors to market levels. To date we have been more successful in achieving this for the staff. Our research indicates that the level of fees paid to directors is still well below market levels for similar sized companies. It is our intention to increase the level of remuneration to market level gradually over a number of years. The current increase in the pool of funds available for director's fees is part of this process and it also provides an opportunity for the board to appoint new independent directors should suitably qualified candidates be available.

*I am concerned that there may be a degree of disharmony amongst board members?*

*Naomi Edwards*

I was appointed to the AEI board in February 2005. It is not my experience that there is any disharmony amongst the directors of the board. In my view it is quite the opposite; while there is no doubt robust debate on various issues, the board in my view is strong and effective in carrying out its functions.

## **Trust Investments and transparency**

*I am concerned about the ethics of an investment that has been made by the investment trust. Why has the investment trust chosen such an investment?*

*James Thier*

It is our experience that not all investors and shareholders will agree with each and every individual investment made. In fact it is very likely that in some areas there will be very passionate and divergent views held. All comments from stakeholders are tracked and reviewed by members of the Investment Committee and any new information supplied in respect to specific investments is followed up. We believe our investment process is thorough and does consider the views of stakeholders and the application of the Australian Ethical Charter in detail in respect of every investment.

It is also worth noting that the trusts not only have different risk profiles but also differing ethical complexions, for example, if you believe direct loans are important in assisting groups to establish themselves you can select from the Income Trust or the Balanced Trust, if supporting companies with smaller capitalisation is considered more ethically significant then the Equities Trust is available.

*If the Industrial Relations Bills pass, will AEI consider the fairness of AWA's implemented by companies it is invested in or considering investing in.*

*James Thier*

The short answer to this question is yes. When considering or reviewing investments, AEI considers the employment conditions of the company.

*There appears to be a lack of transparency about the investments that are made by the investment trusts. Why doesn't the company release all the information it has in respect of individual investments?*

*Caroline Le Couteur*

AEI evaluates all its investments against our ethical charter. We ask our analysts to provide "frank and fearless" advice on the ethics of our investments. We don't make these internal working papers publicly available. One reason for this is that it is possible that not all the investments we look at will agree with our evaluation of their ethics and they could sue us. We believe it is more important to have a robust process to evaluate the ethics of our investments than to make all our internal working papers available to the public.

In deciding what information we can make public AEI must also have regard to protection of our intellectual property. In an effort to ensure our investors have access to information on the trust investments, our web site profiles all investments held by the trusts. We do welcome comments about our investments and I can assure shareholders that all these comments are considered, although not all are acted upon.

AEI supports transparency in all its processes however when considering what information to make public AEI must have regard to potential legal ramifications and the need to protect our intellectual property.

## Capital structure and dividends

*Balance sheet equity rose last year. There appears to be capital available to the company in the future through the exercise of employee options. In these circumstances why is the dividend payout ratio less than 100%? Why is the company considering implementing a DRP and is there an intention to buy back bonus shares on market?*

*Given the large increase in the final dividend this year, is the company confident that it has sufficient reserves necessary to meet any difficult times ahead?*

*Howard Pender*

The directors chose to not pay out 100% of 04-05 after tax, tithe and bonus profit because they wished to retain some cash to enhance future profitability of the company. The main potential uses of cash envisaged are

- potential purchase of premises. The company has to vacate its current premises by July 2007;
- prudential purposes. There are a number of regulatory prudential requirements at a level of balance sheet assets a little higher than the company currently holds. If we exceed those requirements we may be able to improve profit by varying some of our operating arrangements.

The directors are introducing a dividend reinvestment plan so that, should the company wish to raise money this would be feasible. At present it isn't. The directors are not envisaging using the DRP every dividend. They wish to introduce the DRP so they have the capacity to issue shares should they feel it is in the company's best interests in the future. Similarly, in regards the re-purchase of bonus shares this will be considered each year on a case by case basis.

## Business changes

*Has AEI Limited considered setting up either a financial advisory (including share advice) service?*

*Is AEI considering removing or reducing up-front fees?*

*Anne O'Donnell*

AEI reviews all aspects of our business regularly. As stated in my address, at this time we do not intend to make any major change in the direction of our business. However we will continue to keep our product offerings, income and costs under review.