

ASX Announcement

ASX Code: AEF
Date: 16 October 2009

Notice of Annual General Meeting

Please find attached a copy of Australian Ethical's Notice of Annual General Meeting 2009 and associated documents. These have been provided to our share registry for distribution to shareholders.

/end.

Company Background

Australian Ethical is a funds manager that specialises exclusively in ethical funds management. It offers managed investment schemes and corresponding superannuation strategies (for accumulation and pension accounts). The Australian Ethical Charter is the foundation of the investment process. It aims to avoid harmful investments and actively seeks investments that benefit society and the environment. Uniquely, the company's constitution requires that 10% of profit is donated to charitable and conservation initiatives.

19 October 2009

To: Australian Ethical Investment Ltd shareholders

Dear Shareholder,

Notice of Annual General Meeting Thursday 19 November 2009

I invite you to attend the Australian Ethical Investment Ltd Annual General Meeting to be held at **Trevor Pearcey House, 34 Thynne Street, Block E, Traeger Court, Bruce ACT 2617 on Thursday 19 November 2009**, commencing at 9.00am.

The meeting provides an opportunity for shareholders to meet with directors and management and to ask questions about the company's activities and performance. Enclosed is a shareholder newsletter which includes a summary of our 2009 financial results. I would welcome an opportunity to discuss the company's performance with you at the AGM.

Also enclosed is the AGM agenda, proxy form and a form for the submission of written questions.

Depending on your annual report preferences, a copy of the 2009 Annual Report may be included. The annual report is available from our website on the following link: <http://www.australianethical.com.au/annual-reports>.

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

Yours sincerely



Naomi Edwards
Chair
AUSTRALIAN ETHICAL INVESTMENT LTD

australianethical

SHAREHOLDER

UPDATE

October 2009

Chair's report



Significant investments for the future

Australian Ethical has recorded a solid result for 2009, with a dividend declaration of \$1.47 per share and a return on equity of 14.8%. While both these figures are lower than our 2008 returns (\$1.65 per share and 20.6%, respectively) they are reasonable in light of the market turbulence experienced over the past twelve months. The last year has been a difficult one for Australian financial services companies. A number have collapsed. Many have found their business model to be inadequate in such times. Many have suffered a loss of investor funds and/or poor returns on the funds they manage. Australian Ethical has not been immune from the pressures. Nevertheless our business and our balance sheet remain strong with the ability to finance the strategic initiatives discussed below.

Your board is absolutely committed to growing Australian Ethical and to regaining the momentum lost during the global financial crisis. Our passion to grow the company stems from three imperatives:

1. Growing funds under management will allow us to achieve economies of scale which will in turn support ongoing investments in the systems and marketing campaigns that our people and brand deserve, and will enable ongoing delivery of excellent returns to shareholders.
2. We believe that the planet faces urgent environmental problems and that growing our model of sustainable and ethical investment will

help companies and investors who want to solve these problems.

3. We want to provide our staff, customers and shareholders with the excitement and satisfaction that comes from being able to deliver real change, new opportunities and leadership in the field of sustainable investment.

We continue to believe that our key strength lies in our true to label brand, our consistently excellent investment performance and our strongly committed retail customer base. During 2009, board and management have considered the issue of how best to capitalise on the Australian Ethical brand, while recognising that many people are nervous about the stock market in general and stock picking in particular.

To this end, we have developed two new trusts this year which we believe will have considerable appeal to both retail and institutional investors:

Australian Ethical Property Trust – this trust aims to provide a lower risk vehicle for investors, while capitalising on government and consumer support for green buildings. It is unique in the market, and once it starts to grow will be an exciting option within our product suite.

Climate Advocacy Fund – this is a new type of trust in the Australian market. It will be a low fee, passive portfolio construction, index fund that advocates in a responsible way through its shareholdings on matters relevant to the Australian Ethical Charter. It will have a particular focus in the early years on climate and environmental issues, but may also engage with investee companies on broader issues under our Charter, such as social issues.

But new products alone will not be enough to achieve the growth target we have set ourselves. We also need to improve our distribution reach, including into financial planning groups and self managed super funds. On the financial planning front we are considering a variety

Chief Executive's report

of options that will give us better leverage with financial planning groups and make our products more attractive to them. We are launching a new PDS for our trusts on 1 October which will include a new fee structure which we expect will be more attractive to planners and direct investors alike. We continue to increase the number of presentations to financial planning groups and to improve relationships with them. We will also be launching a new website which will help retail investors to invest with us and advisers to access the information they need.

On the institutional front, we are focused on overcoming obstacles to winning institutional mandates. Our progress here has been slower than desired, but the board and company remain committed to penetrating this market segment.

Last year I flagged that we would be reviewing some of our systems. This review has been carried out and resulted in the decision to outsource our trust registry function to Registries Limited. We have also recognised the need to replace our internal asset management system. Replacing these systems will enable us to deliver better service to our clients and investment team alike.

The coming financial year will include several one-off expenses (including CEO transition costs, new systems expenditure and new PDS and website production) that will impact profit in 2009–10. These expenditures are investments for the future and, together with improving market conditions, means that Australian Ethical is well positioned to lift performance over the coming years.

We remain focused on a clear vision of providing truly ethical investments to our clients, spreading the reach of our approach through a clear growth strategy and making investments over the next 12 months that will significantly lower our cost base going forward and deliver economies of scale.

I would like to thank all of our shareholders for your continued support of our company and what we stand for. We are working hard to deliver excellent returns to you, to make a positive contribution to the community and to be a great employer.

On that note, I would like to thank Anne O'Donnell for her hard work and contribution to the company over nine years as CEO of Australian Ethical. During those nine years, Australian Ethical has professionalised, listed on the ASX and maintained its strongly ethical approach – no small achievement. I am not yet in a position to announce who will replace Anne as CEO but we expect to do this by the end of November. The next CEO will be a person who retains the deep ethical commitment of Australian Ethical while being a significant force in driving its growth into the future.



Naomi Edwards
Chair



As this will be my last report to you as CEO, I thought I would indulge in a little retrospection. There is always so much to do that it is easy to lose sight of what we have achieved. Occasionally, it is useful to pause and look back.

When I joined Australian Ethical in late 2000 the company had \$85 million funds under management and profitability was minimal. We were little known in the mainstream financial market, indeed those who did know us considered us a quaint market oddity and I remain convinced that industry colleagues expected me to turn up to meetings in a caftan and were disappointed when I did not.

There have been many challenges in our journey to increase the professionalism of the organisation and to grow our business and to do so in a way which did not compromise our commitment to the ethical charter. We have built a strong and profitable business which has weathered the most difficult of financial times well. We are now recognised as an expert in our field and respected for the commitment we have shown to our principles. We have met the challenges of continuous changes in legislation which have been thrust upon us. Today Australian Ethical has a very professional and dedicated senior team and our key person risk has been significantly reduced. These achievements are the result of a team effort. I have been privileged to lead that team and I am very proud that through our growth and significant change we have been able to retain the core of our distinct culture.

Australian Ethical has produced a solid result during a period of unprecedented turmoil in the global financial markets. We recorded a consolidated net profit after income tax of \$1.2 million. This trading result represents a decrease on the previous financial year's result of \$1.6 million. Whilst it is disappointing to record a decrease in year on year profit, given the difficult circumstances experienced in the financial markets I consider this a reasonable result.

The company has experienced a number of positives during the past 12 to 18 months. We have a strong balance sheet with no debt, we have not experienced any significant change in historic outflow patterns and the majority of our funds have achieved excellent relative performances. Market uncertainty and

Grants to community organisations

volatility did impact investor confidence, and inflow into our managed funds and superannuation were down through the period. Whilst our funds under management fell to a low of \$461 million in March 2009, we have seen a significant turn around since that time. Our funds under management are now above \$600 million and inflows are returning.

The Australian Ethical Superannuation Fund continues to be a growth engine of the business. Despite some regrettable disruptions during transition to our new superannuation administrator, membership of our superannuation fund continues to grow steadily with the business contributing strongly to our overall result.

This year we have adopted industry practice in relation to cost allocations to the managed funds and superannuation fund. This change, along with savings which will continue to flow from changes we have previously made to our custodian and superannuation administration providers, have the potential to positively impact our profitability going forward.

The last 12 to 18 months have been a very difficult and often trying time. It has been my privilege to lead such a hard working and dedicated team. I hand over control of the company to my successor in the knowledge that the company is in great shape and has a bright future. I would like to thank all my wonderful staff for their support during my tenure. I would also like to thank a number of past staff who were vital in the establishment of the company. Their vision and commitment helped us to establish a business model which has survived these difficult times. I look forward to seeing you at the annual general meeting on the 19 November.



Anne O'Donnell
Chief Executive Officer

\$5000 \$40 000 \$45 000

Co-operation in Development Organisation will construct a school in a remote part of the Ganges Delta, Bangladesh. It will provide free education for kindergarten and primary students, as well as evening classes for senior students (aged over nine) who have had to leave school to enter the workforce.

An Australian Ethical initiated mini-documentary competition on the theme 'Corporate Responsibility and the Environment'

ACT Eden Monaro Cancer Support Group
Australian Marine Conservation Society

ACT Frogwatch
Alzheimer's Australia NSW
Australian Red Cross
Barefoot Economy
Bush Heritage Australia
Free the Bears Fund
Pedal Power ACT
Sydney Cochlear Implant Centre
The Grey Man
Wildcare Queanbyan

\$2800

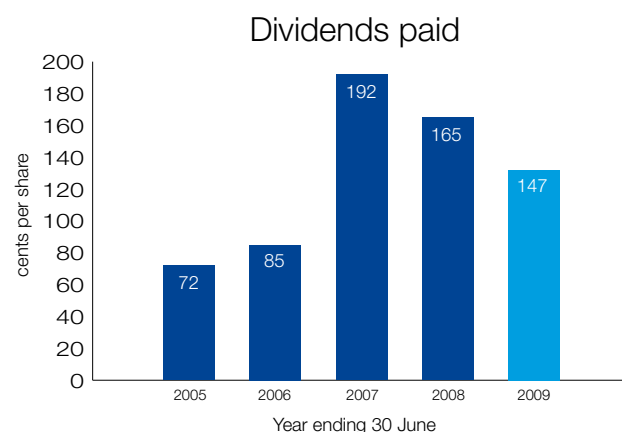
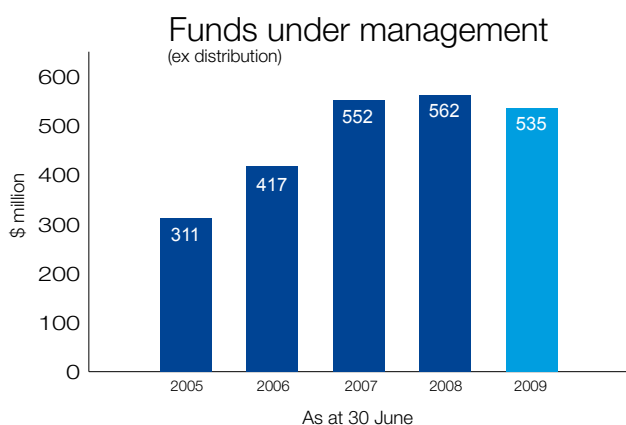
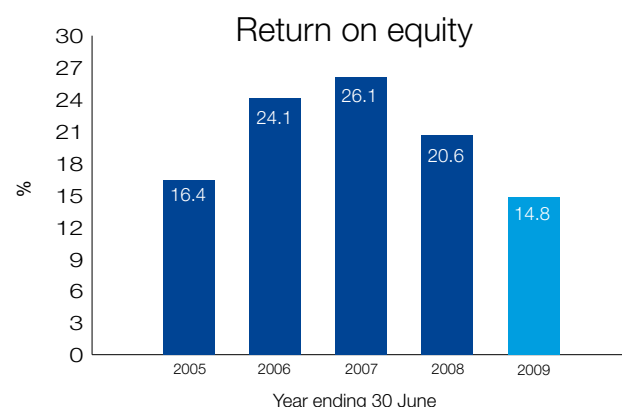
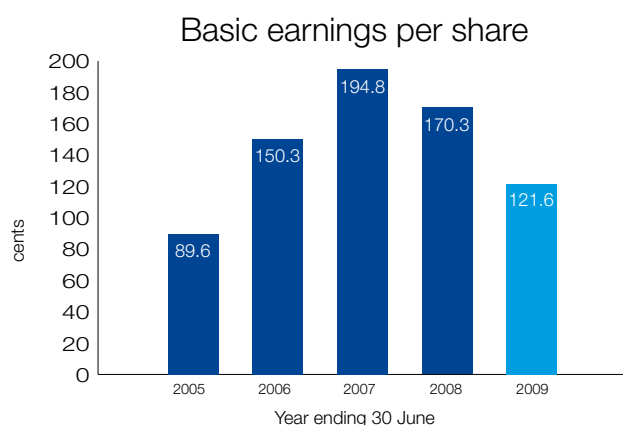
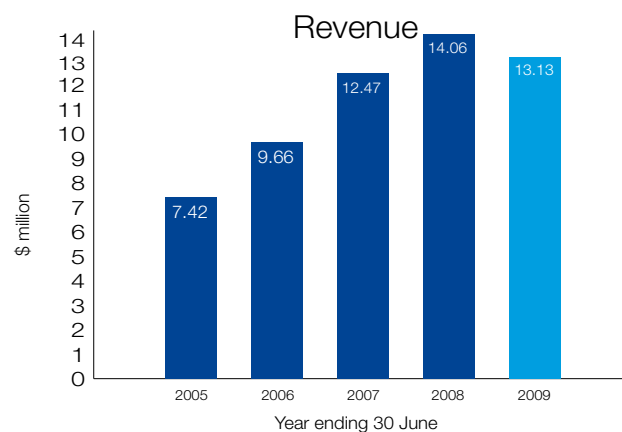
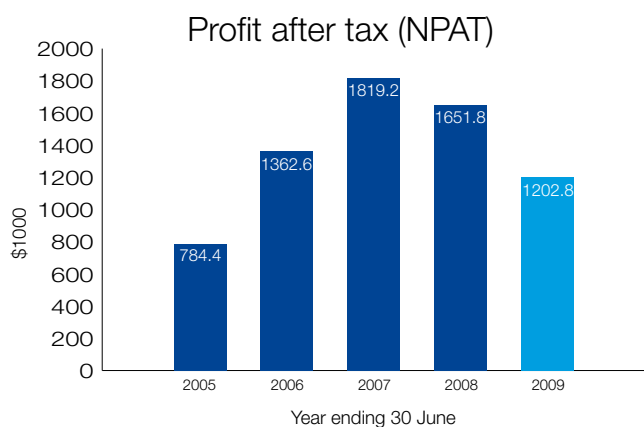
CARE Australia
Condobolin and Districts Landcare
East Timor Women Australia
Hope Street - Urban Compassion
International Women's Development Agency
New Internationalist Publications
NSW Wildlife Information Rescue & Education Service
Sea Turtle Foundation
Spinal Cord Injuries Australia
The Cerebral Palsy Foundation
WaterAid Australia

\$1500

A full description of all the grant recipients is available on our website www.australianethical.com.au

Financial summary to 30 June 2009

as at	30 June 2009	30 June 2008	30 June 2007	30 June 2006
Current assets (\$'000)	6 369	6 362	5 174	5 176
Non-current assets (\$'000)	4 686	4 790	4 879	3 103
Current liabilities (\$'000)	2 519	2 658	2 293	1 928
Non-current liabilities (\$'000)	83	113	76	77
Net assets (\$'000)	8 453	8 381	7 684	6 274



2005 figures in the above tables and graphs have been adjusted where necessary as for first time adoption of Australian equivalents to International Financial Reporting Standards (AIFRS).

Shareholder contacts:

Margaret Woods

Company Secretary
Phone: 0410 533 007
mwoods@australianethical.com.au

Donna Cameron

Assistant Company Secretary
Phone: 02 6201 1913
dcameron@australianethical.com.au

Share registry:

Registries Limited

Phone: 1300 737 760
registries@registriesltd.com.au

Australian Ethical® Investment

Notice of twenty third Annual General Meeting of shareholders

Notice is hereby given that the Annual General Meeting of the shareholders of Australian Ethical Investment Ltd (the Company) will be held at **Trevor Pearcey House, 34 Thynne Street, Block E, Traeger Court, Bruce ACT 2617** on Thursday 19 November 2009, commencing at 9.00am.

Business:

Nine motions will be proposed as ordinary resolutions.

Explanatory material for the business to be conducted is attached to and forms part of this Notice. Shareholders should read the explanatory material carefully.

1. Accounts and reports

To receive and consider the financial statements of the Company and its controlled entity for the year ended 30 June 2009 and the related Directors' Report, Directors' Declaration and Auditor's Report.

2. Remuneration report and the status of employees

To consider and if thought fit pass the following resolutions:

- (a) **That** the remuneration report included in the Directors' Report to shareholders be approved.
- (b) **That** the report on the status of employees to shareholders be noted pursuant to clause 2.2 of the Constitution.

3. Directors

- (a) **That** Naomi Edwards who retires by rotation in accordance with the Company's Constitution and, being eligible, offers herself for re-election, be re-elected as a director of the Company.
- (b) **That** Justine Hickey who retires by rotation in accordance with the Company's Constitution and, being eligible, offers herself for re-election, be re-elected as a director of the Company.

Note: The Board does not support motions 3(c) and 3(d) and recommends that shareholders vote against the motions

- (c) **That** Mr Trevor Lee be elected as a director of the Company.
- (d) **That** Mr Kevin McCready be elected as a director of the Company.

4. Remuneration of Directors

To consider and if thought fit pass the following resolution:

That for the purposes of listing rule 10.17, the Company reward persons who undertake duties and responsibilities of being a non-executive director in 2009-2010 (including attendance at meetings of the Board of Directors and its Board Committees) by approving payment of \$200,000 in total plus superannuation.

5. Issue of performance rights under the employee share incentive scheme

To consider and if thought fit pass the following resolutions:

- (a) **That** for the purpose of ASX listing rule 10.14, and to ensure that all permanent employees are treated equally under the employee share incentive scheme, James Thier be permitted to participate in the employee share incentive scheme of the Company for three years from the date of the Annual General Meeting.
- (b) **That** for the purpose of ASX listing rule 10.14, and to ensure that all permanent employees are treated equally under the employee share incentive scheme, Howard Pender be permitted to participate in the employee share incentive scheme of the Company for three years from the date of the Annual General Meeting.

In accordance with the *Corporations Act 2001*, a reasonable opportunity will be given to shareholders at the meeting to ask questions about or make comments on the management of the Company. Shareholders will also have a reasonable opportunity to ask the auditor or their representative questions relevant to the conduct of the audit and the preparation and content of the Auditor's Report.

By order of the Board
Margaret Woods
Company Secretary

Voting Restrictions

Voting Exclusion Statements

Resolution 4

The Company will disregard any votes cast on resolution 4 by:

- (a) a director of the Company; and
- (b) an associate of a director.

Resolutions 5(a) and 5(b)

The Company will disregard any votes cast on resolutions 5(a) and 5(b) by:

- (c) a director of the company (except one who is ineligible to participate in any employee incentive scheme); and
- (d) an associate of such a director.

However, in the above circumstances, the Company will not disregard a vote if:

- (a) it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- (b) it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Additional information

Annual report

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

Proxies

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

To appoint a proxy, ordinary shareholders should complete the proxy form distributed with this notice of meeting. The proxy form must be deposited at the share registry, Registries Limited, or at the Company's Registered Office not later than 48 hours before the commencement of the meeting (i.e. by 9.00 am on Tuesday, 17 November 2009). Any proxy received after that time will not be valid for the scheduled meeting.

Proxies can be delivered as follows:

	<i>Share Registry</i>	<i>Company</i>
By hand	Registries Limited Level 7, 207 Kent Street Sydney NSW 2000	Australian Ethical Investment Ltd Trevor Pearcey House 34 Thynne Street Block E, Traeger Court Bruce ACT 2617
By mail	Registries Limited GPO Box 3993 Sydney NSW 2001	Australian Ethical Investment Ltd GPO Box 2435 Canberra ACT 2601
By facsimile	1 300 653 459	02 6201 1987
Online	Go to: www.registries.com.au/vote/aeiaqm2009	

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

In appointing a proxy, ordinary shareholders should consider how they wish to direct the proxy to vote. A shareholder can direct a proxy to vote "for" or "against", or abstain from voting, on each proposed resolution or can leave the decision to the appointed proxy after discussion at the meeting.

Voting entitlements

The Directors have determined that the shareholding of each shareholder for the purposes of ascertaining the voting entitlements for the Annual General Meeting will be as it appears in the share register at 9.00 am on Tuesday 17 November 2009 (Section 1074E and Regulation 7.11.37 Corporations Act 2001, ASTC Settlement Rules, Section 5.6).

Written questions

Members are able to put written questions to directors or to the auditors. To submit a written question please complete the question form distributed with this notice. Questions directed to the auditor should relate to:

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

The question form should be deposited at the Company's Registered Office not later than five business days prior to the meeting - by 9.00am on Thursday 12 November 2009. Written questions can be delivered to the Registered Office by hand, posted to Australian Ethical Investment Ltd, GPO Box 2435, Canberra ACT 2601 or faxed to 02 6201 1987. If posting your question form, please ensure that you mail it sufficiently in advance so that it arrives at the Registered Office by the required time. Please include the shareholder name on the form exactly as it appears on your holding certificate.

Written questions addressed to the auditor will be passed onto the auditor for consideration.

Recording of proceedings

Please note that the Company intends to record the proceedings of the Annual General Meeting.

Explanatory material for AGM Agenda items

1. Accounts and Reports

The financial statements of the Company for the 2008/2009 financial year have been lodged with the Australian Securities Exchange and with the Australian Securities and Investments Commission in accordance with statutory lodgement timetables and requirements. The financial statements are tabled at the Annual General Meeting to be received and considered by shareholders. No formal resolution on the financial statements and reports is required.

2. Remuneration report and the status of employees

Remuneration Report

Section 250R(2) of the Corporations Act 2001 requires directors to put forward, and afford shareholders an opportunity to vote upon, a resolution to accept the remuneration report included in the directors' report. Under section 250R(3) the vote on the resolution is advisory only and does not bind the directors or the Company.

Status of employees

Under clause 2.2 of the Constitution, the Company is required to have regard for the status of its employees and, in particular, to promote employee ownership of the Company and to report on the status of employees at the time of the Annual General Meeting. The Company seeks to be an exemplary employer, valuing each individual as a member of a cohesive team. The Company has sought to recognise its employees in its day-to-day operations, including:

- employees elect a staff advocate who represents staff through direct contact with the Board;
- the Company has an employee share ownership plan for the issue of share options to staff;
- payment of an annual bonus to employees; and
- provision of benefits to employees beyond those legally mandated.

In particular, the Company has the following employment conditions:

- flexibility in 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 up to two days paid study leave per year to prepare for examinations or to finalise course work;
- three days additional leave between Christmas and New Year;
- the choice of being paid monthly or fortnightly;
- a subsidised personal development program; and
- access for staff and their families to a counselling service.

Reporting on the status of employees is in the sustainability section of the Annual Report and also found in the Company's detailed Sustainability Report that is prepared with reference to the Global Reporting Initiative Guidelines. Copies of the Sustainability Report are available from the Company's website (www.australianethical.com.au).

3. Election of directors

In accordance with the Constitution, two directors retire by rotation being Naomi Edwards and Justine Hickey.

Nominations supported by the Board

Both Naomi and Justine are standing for re-election. Naomi and Justine are both independent directors and Naomi is chair of the board. Details of qualification and experience follow:

Naomi Edwards

B.Sc.(Hons), FIA FIAA, Non-Executive Chairperson

Naomi is a Fellow of the Institute of Actuaries and has a high level of financial experience with practical conservation and environmental links. Naomi was Partner in charge of the financial services industry group within Deloitte Touche Tohmatsu in Sydney and leader of the financial services practice for Trowbridge Consulting for many years. She has undertaken pro bono work providing actuarial assistance for environmental and social organisations. Naomi chairs the remuneration and nominations committee and is a member of the audit, compliance and risk committee. Naomi is also a director of Australian Ethical Superannuation Pty Ltd.

Justine Hickey

B.Com, GAICD, SAFin, CFA, Non-Executive Director

Justine has over 17 years experience in investment and funds management, as an equities portfolio manager and in senior management. She was head of equities at Suncorp Investment Management in Brisbane until 2004. Justine is a director of Hyperion Flagship Investments Ltd and the Rio Tinto Staff Super Fund. She is a member of the investment committees of Dalton Nicol Reid and the University of Melbourne. For several years, Justine has been involved with the Youth Enterprise Trust (YET), a charity that helps young people in need discover a sense of their self worth and purpose. Justine chairs the investment committee and is a member of the remuneration and nominations committee.

The Board believes that Naomi and Justine are providing significant and valuable contributions in their capacity as independent directors and **unanimously supports** the re-election of both Naomi and Justine.

Nominations not supported by the Board

The Company has received nominations for the position of director from Mr Trevor Lee and Mr Kevin McCready.

Mr Lee was formerly a director and employee of the Company. The Board did not support his reappointment as a director at the AGM held in 2004. At the 2004 AGM, shareholders voted **not** to reappoint Mr Lee to the Board. Mr Lee again nominated for the position of director at the 2008 AGM and shareholders voted **not** to appoint Mr Lee to the Board.

Mr Lee has been dissatisfied with the Board for many years, stemming from an investigation by the Board into the veracity of a report requested by the Board in 2004 on Steiner Schools. More detail on the Board's interaction with Mr Lee can be found at:

Shareholder newsletter April 2008 (<http://www.australianethical.com.au/shareholder-newsletter>)

2007 - Discussion about shareholder written questions (<http://www.australianethical.com.au/annual-general-meetings>).

Mr McCready nominated for the position of director at the company's AGM held in 2005 and again in 2008. He did not attend either of those AGMs. Shareholders voted **not** to appoint Mr McCready to the Board at those AGMs.

The Board does not believe that Mr Lee or Mr McCready have skills or competencies which would enhance the functioning of the Board or the Company. The Board believes that the appointment of Mr Lee or Mr McCready to the Board would be very disruptive to the proper functioning of the Board and the Company, to the significant detriment of shareholders.

The Board **unanimously does not support** the election of Mr Lee or Mr McCready.

The size of the Board

There are four nominations for director and two positions capable of being filled.

Order in which motions will be voted on

Under Rule 11.3(b) of the Constitution, where the number of nominations for election as a director exceeds the number of directors who have or are to resign at the general meeting, the order in which nominations are to be voted on must be determined by ballot and once the relevant vacancies have been filled, no further nominations may be voted on.

The ballot required under Rule 11.3(b) will be conducted at the AGM, with the Chair drawing names to determine the order in which motions 3(a) to 3(d) will be put.

4. Remuneration of directors

Listing Rule 10.17 states

"An entity must not increase the total amount of directors' fees payable by it or any of its +child entities without the approval of holders of its +ordinary securities. This rule does not apply to the salary of an executive director. However, an executive director's salary or director's fees must not include a commission on, or percentage of, operating revenue.

10.17.1 The notice of meeting must include the amount of the increase, the maximum amount that may be paid to the directors as a whole, and a +voting exclusion statement.

10.17.2 If a non-executive director is paid, he or she must be paid a fixed sum."

For the purposes of Listing Rule 10.17 (i.e. the non-executive director fee pool), the directors propose an increase in remuneration of \$20,000 (plus superannuation guarantee contributions) from an aggregate amount of \$180,000 per year (plus SGC) to an aggregate amount of \$200,000 per year (plus SGC).

The non-executive director fee pool was last increased at the 2007 AGM.

The board does not intend to increase individual non-executive director fees from existing levels in 2009-2010, but is seeking an increased non-executive director fee pool at this Annual General Meeting to allow:

- the possibility for market increases from the commencement of the 2010-11 year;
- room under the aggregate amount for the appointment of additional non-executive directors.

5. Employee share incentive scheme

Resolution 5(a) - That for the purpose of ASX listing rule 10.14, and to ensure that all eligible employees are treated equally under the employee share incentive scheme, James Thier be permitted to participate in the employee share incentive scheme of the Company for three years from the date of the Annual General Meeting

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

All permanent staff of the Company participated in an award of performance rights in October 2009 under the Company's employee share incentive scheme. The employee share incentive scheme was approved by shareholders at the 2008 Annual General Meeting.

James Thier was a permanent employee of the Company at the relevant time and therefore to ensure that he is treated in the same way as all other permanent staff, he is entitled to participate in the scheme. As is the case for all permanent staff, James has a contractual right to participate in the employee share incentive scheme.

In October 2009, the Company entered into an agreement with James for the award of performance rights under the scheme, such award conditional on approval for James to participate in the scheme by holders of ordinary securities.

The rules of the employee share incentive scheme are available on the Company's website.

The performance hurdles which must be met for the performance rights awarded in 2009 to convert to ordinary shares in the Company are set out in Attachment A. No additional amount is payable on the conversion of the performance rights, so no additional capital is raised.

If approved, the award of performance rights will be made within one week of the date of the Annual General Meeting.

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

The maximum number of securities that can be issued in any financial year under the employee share incentive scheme is 5% of the issued capital as at 30 June for the previous financial year.

The maximum number of shares or performance rights (securities) that will be provided to James under the employee share incentive scheme is 2,000 securities.

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

Details of securities issued to executive directors under the employee share incentive scheme will be published in the Company's Annual Report. The Annual Report will contain a statement that shareholder approval for the issue of the relevant shares and performance rights was obtained under ASX Listing Rule 10.14.

There have been no performance rights issued under the employee share incentive scheme to any director or their associates.

ASX Listing Rule 10.14 approval for the issue of shares and options to executive directors under the previous employee share ownership plan was obtained at the Annual General Meeting held in November 2006. The following number of shares and options were issued to James under the previous employee share ownership plan. James participated in the plan together with all other permanent staff.

<i>Options Reference</i>	<i>Issue Price</i>	<i>Exercise Price</i>	<i>Exercise Period</i>
AEFAT	Nil	\$57.57	24/9/10 to 23/12/10
AEFAV	Nil	\$32.27	14/10/2011 to 13/1/2012

<i>Name</i>	<i>Class</i>	<i>Number issued</i>
James Thier	AEFAT	1,517
	AEFAV	1,364
	Ordinary Shares	28

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

Non-executive directors are ineligible to participate in any employee incentive scheme. The only current directors eligible to participate in the scheme are James and Howard Pender.

James and Howard (and their associates) are subject to a voting exclusion on this resolution.

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

Resolution 5(b) - That for the purpose of ASX listing rule 10.14, and to ensure that all permanent employees are treated equally under the employee share incentive scheme, Howard Pender be permitted to participate in the employee share incentive scheme of the Company for three years from the date of the Annual General Meeting.

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

Explanatory material is the same as for James Thier (motion 5(a)) set out above except as follows:

The maximum number of shares or performance rights (securities) that will be provided to Howard under the employee share incentive scheme is 2,000 securities.

The following number of shares and options were issued to Howard under the previous employee share ownership plan. Howard participated in the plan together with all other permanent staff.

<i>Options Reference</i>	<i>Issue Price</i>	<i>Exercise Price</i>	<i>Exercise Period</i>
AEFAT	Nil	\$57.57	24/9/10 to 23/12/10
AEFAV	Nil	\$32.27	14/10/2011 to 13/1/2012

<i>Name</i>	<i>Class</i>	<i>Number issued</i>
Howard Pender	AEFAT	1,517
	AEFAV	1,326
	Ordinary Shares	109

Non-executive directors are ineligible to participate in any employee incentive scheme. The only current directors eligible to participate in the scheme are James Thier and Howard Pender.

James and Howard (and their associates) are subject to a voting exclusion on this resolution.

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

End./

Attachment A – Performance hurdles applicable to performance rights

One performance right will convert to one AEI share.

The performance criteria for the performance rights are:

- employment must continue until 30 June 2012;
- the arithmetic average return on equity over the performance period ('AROE') must exceed 15% p.a. or no AEI shares shall be awarded at the end of the performance period;
- if the AROE exceeds 15% p.a. but is less than 20% p.a., half the maximum number of AEI shares shall be awarded;
- if the AROE is equal to or greater than 20% p.a. the maximum number of AEI shares shall be awarded.

The performance period is set as the 3 financial years 2009/10, 2010/2011 and 2011/2012. AROE is determined as the arithmetic average of return on equity over six month periods calculated using audited half-year financial statements.

FOR ALL ENQUIRIES CALL:
(within Australia) 1300 737 760
(outside Australia) +61 2 9290 9600

FACSIMILE
+61 2 9290 9655

ALL CORRESPONDENCE TO:
Registries Limited
GPO Box 3993
Sydney NSW 2001
Australia

YOUR VOTE IS IMPORTANT

FOR YOUR VOTE TO BE EFFECTIVE IT MUST BE RECORDED BEFORE 9.00AM 17th NOVEMBER 2009

TO VOTE ONLINE



STEP 1: VISIT www.registries.com.au/vote/aeiaqm2009

STEP 2: Enter your holding/Investment type

STEP 3: Enter your SRN/HIN and VAC: <VAC NUMBER>



Your Address

This is your address as it appears on the company's share register. If this is incorrect, please mark the box with an "X" and make the correction on the form. Securityholders sponsored by a broker should advise your broker of any changes. **Please note, you cannot change ownership of your securities using this form.**

<SRN/HIN>

TO VOTE BY COMPLETING THE PROXY FORM

STEP 1 Appointment of Proxy

Indicate here who you want to appoint as your Proxy

If you wish to appoint the Chairman of the Meeting as your proxy, mark the box. If you wish to appoint someone other than the Chairman of the Meeting as your proxy please write the full name of that individual or body corporate. If you leave this section blank, or your named proxy does not attend the meeting, the Chairman of the Meeting will be your proxy. A proxy need not be a security holder of the company. Do not write the name of the issuer company or the registered securityholder in the space.

Proxy which is a Body Corporate

Where a body corporate is appointed as your proxy, the representative of that body corporate attending the meeting must provide an "Appointment of Corporate Representative" prior to admission. An Appointment of Corporate Representative form can be obtained from the company's securities registry.

Appointment of a Second Proxy

You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by telephoning the company's securities registry or you may copy this form.

To appoint a second proxy you must:

- complete two Proxy Forms. On each Proxy Form state the percentage of your voting rights or the number of securities applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded.
- return both forms together in the same envelope.

STEP 2 Voting Directions to your Proxy

You can tell your Proxy how to vote

To direct your proxy how to vote, place a mark in one of the boxes opposite each item of business. All your securities will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any item by inserting the percentage or number of securities you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on a given item, your proxy may vote as he or she chooses. If you mark more than one box on an item your vote on that item will be invalid.

STEP 3 Sign the Form

The form **must** be signed

In the spaces provided you must sign this form as follows:

Individual: This form is to be signed by the securityholder.

Joint Holding: where the holding is in more than one name, all the securityholders must sign.

Power of Attorney: to sign under a Power of Attorney, you must have already lodged it with the registry. Alternatively, attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: this form must be signed by a Director jointly with either another Director or a Company Secretary. Where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. **Please indicate the office held by signing in the appropriate place.**

STEP 4 Lodgement of a Proxy

This Proxy Form (and any Power of Attorney under which it is signed) must be received at an address given below not later than 48 hours before the commencement of the meeting (by 9.00am on Tuesday, 17 November 2009). Any Proxy Form received after that time will not be valid for the scheduled meeting.

Proxies may be lodged using the reply paid envelope or:

BY MAIL Share Registry – Registries Limited, GPO Box 3993, Sydney NSW 2001 Australia

BY FAX + 61 2 9290 9655

IN PERSON Share Registry – Registries Limited, Level 7, 207 Kent Street, Sydney NSW 2000 Australia

Completion of a proxy form will not prevent individual shareholders from attending the Annual General Meeting in person if they wish. A proxy is not revoked by the appointing member attending and taking part in the meeting, unless the appointing member votes at the meeting on the resolution for which the proxy is proposed to be used.

Australian Ethical Investment Limited
c/- Registries Limited
GPO Box 3993
Sydney NSW 2001
Australia

<BARCODE>

STEP 1 - Appointment of Proxy

I/We being a member/s of Australian Ethical Investment Limited and entitled to attend and vote hereby appoint

the Chairman of the Meeting (mark with an 'X') **OR**

If you are not appointing the Chairman of the Meeting as your proxy please write here the full name of the individual or body corporate (excluding the registered Securityholder) you are appointing as your proxy.

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my/our proxy at the Annual General Meeting of Australian Ethical Investment Limited at **Trevor Pearcey House, 34 Thynne Street, Block E, Traeger Court, Bruce ACT 2617 on Thursday 19 November 2009, commencing at 9.00am** and at any adjournment of that meeting to act on my/our behalf and to vote in accordance with the following directions or if no directions have been given, as the proxy sees fit.

STEP 2 - Voting directions to your Proxy – please mark to indicate your directions

RESOLUTION	For	Against	Abstain*	RESOLUTION	For	Against	Abstain*
2(a) Approve the remuneration report included in the Directors' Report.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	4 Approve director remuneration.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2(b) Note report on the status of employees pursuant to rule 2.2 of the Constitution.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	5(a) Approve participation of Mr James Thier in the employee share incentive scheme.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The Board SUPPORTS the election of Naomi Edwards and Justine Hickey				5(b) Approve participation of Mr Howard Pender in the employee share incentive scheme.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3(a) Re-elect Naomi Edwards.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>				
3(b) Re-elect Justine Hickey.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>				
The Board DOES NOT SUPPORT the election of Mr Lee or Mr McCready and recommends that you direct your proxy to vote AGAINST motions 3(c) and 3(d)							
3(c) Elect Mr Trevor Lee.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>				
3(d) Elect Mr Kevin McCready.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>				

*If you mark the Abstain box for a particular item, you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

The Chair intends to vote 100% of all open proxies in favour of the resolutions, **except that the Chair will vote open proxies against resolutions 3(c) and 3(d).**

If the Chair of the meeting is appointed as your proxy, or may be appointed by default and you do not wish to direct your proxy how to vote as your proxy in respect of **resolution 4** please place a mark in the box. By marking this box, you acknowledge that the Chair of the meeting may exercise your proxy even if they have an interest in the outcome of **resolution 4** and votes cast by the Chair of the meeting for **resolution 4** other than as proxy holder will be disregarded because of that interest. If you do not mark this box, and you have not directed your proxy how to vote, the Chair will not cast your votes on **resolution 4** and your votes will not be counted in calculating the required majority if a poll is called on the resolutions.

STEP 3 - PLEASE SIGN HERE This section *must* be signed in accordance with the instructions overleaf to enable your directions to be implemented.

Individual or Securityholder 1

Securityholder 2

Securityholder 3

Sole Director and Sole Company Secretary

Director

Director/Company Secretary

Contact Name

Contact Daytime Telephone Date /

Twenty third Annual General Meeting of Shareholders

Written questions from shareholders

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

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

This question form should be deposited at the Company's Registered Office not later than five business days prior to the meeting - by 9.00 am on Thursday 12 November 2009. Written questions can be delivered to the Registered Office by hand, posted to Australian Ethical Investment Ltd, GPO Box 2435, Canberra ACT 2601 or faxed to 02 6201 1987. If posting your question form, please ensure that you mail it sufficiently in advance so that it arrives at the Registered Office by the required time.

Written questions addressed to the auditor will be passed onto the auditor for consideration.

Please note that the company intends to respond to written questions thematically. Answers to questions will be provided at the Annual General Meeting and will also be published on the company's website. The company may not provide individual answers to written questions at the meeting.

Please note that the company will not respond to or publish questions which in its view are defamatory, vexatious or which are the subject of or related to potential legal action by or against the company.

The company may choose not to answer questions which:

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

Directors provide this opportunity to enable shareholders who may not be able to attend the Annual General Meeting to ask questions. This is something that directors choose to do, not something that they are compelled to do.

Shareholder name (exactly as it appears on holding statement)

Address and contact details

Question(s)

Section 249P Members' statements

The company is compelled under section 249P of the Corporations Act 2001 to distribute the attached members' statements to shareholders. The statements relate to motions 3(c) and 3(d) for directorship on the 2009 AGM notice of meeting.

The members who have requested that the company distribute these statements are Mr Trevor Lee and Dr Edward Icton. Mr Lee and Mr Kevin McCready have prepared their statements in support of their nomination and they are each **solely responsible** for the content of their statements.

Kevin McCready

I seek election as an AEI Director, hoping to improve AEI performance in some key areas.

- I oppose AEI investment in Steiner schools and homeopathy.
- I hope to improve the culture, administration and structure of AEI. The ethical standards we set ourselves must be as high as or higher than those required of companies we support.
- Greater transparency is needed.
- AEI should break new ground in democratising itself.

To support my candidacy, please complete, sign and lodge your proxy form marking the "For" box on the Motion canvassing my election.

My Background

I have degrees in History (Hons), Economics (law major), and a Dip. Ed. from Sydney University, and a degree-equivalent in Chinese as a professional translator. I enjoy running my own business translating Chinese scientific material into English. I have invested in AEI since 2002.

I've been employed to teach computer studies/literacy and undertake an ombudsman role in the NSW and Queensland prison systems respectively.

I worked for nine years in the Australian Public Service in Canberra. Highlights included advising on Australia's relations with the World Bank and Asian Development Bank. I was fortunate to be chosen to lead an Australian mission to negotiate and sign the world's first MOU with the Chinese for a government to government aid project in Tibet.

I've also been Secretary for our local environment group, enjoy bushwalking and riding our tandem recumbent push bike with my wife Joanna.

Steiner/Anthroposophy investment

The Steiner (Waldorf) school movement is associated with Anthroposophy which was adversely named in a Belgian Parliamentary Enquiry into cults and by www.waldorfcritics.org (a self-help group sharing negative experiences of Steiner). Websearches reveal concerns with this movement, as does contact with organisations like Cult Counselling Australia or Cult Information and Family Support. Recently these concerns were exacerbated by the publication of a new edition of "Sun at Midnight" (www.sun-at-midnight.com) the classic expose of the Steiner movement by Dr Geoffrey Ahern and by the revelations in the "Sydney Morning Herald" of adolescent sexual misdeeds at the Newcastle Waldorf School (No Class Act, 11 July 2009). AEI Chair's response to this is that this is not a school they lend to and that their loans to Steiner schools are only small (by AEI standards).

Steiner schools in Melbourne, Perth and Newcastle have seen significant documented disquiet among parents about the way children were taught. I contacted AEI with my concerns and was told I could not have access to the Board information on which the "ethical" decision to invest in Steiner schools was made. My formal complaint to ASIC about AEI withholding the share register was upheld. AEI should improve its knowledge of cults, its transparency, and its knowledge of the law applying to it. All reports to the AEI Board on the issue should be made public.

Homeopathy investment

I understand that AEI's foray into the French homeopathy enterprise Boiron Group has now ceased - but AEI has failed to forswear future investments in such ventures.

You may have seen the TV exposé of homeopathy. The James Randi Foundation offered a prize of \$US1 million if homeopathy could be proved. It wasn't. It concerns me that AEI would invest in what, until proven otherwise, is best described as quackery. An AEI investment in homeopathy, Medicine Quantale Ltd in 1997 was a marked financial failure which deserves full analysis. All reports to the AEI Board on the issue should be made public.

I have had success under the NSW Fair Trading Act, in gaining Departmental prosecution of a quack company. S23A reads: "The Director-General may require a person who, in trade or commerce, published or caused to be published a statement promoting, or apparently intended to promote, the supply of goods or services or the sale or grant of an interest in land, to provide the Director-General with proof of any claim or representation (express or implied) made in the statement." As an AEI Director I would oppose investing in any company which made claims which would fail this simple legal and ethical test.

Transparency

I understand that in the past AEI offer documents listed both the loans made to ethical companies and the amounts. This allowed a dollar weighted evaluation of the ethical portfolio. Under the law, providing such information in a Public Disclosure Statement now requires borrower consent. If I were an AEI Director I would argue for such conditions to be negotiated with borrowers at the time of loan roll-over or at the beginning of new loans. It is sad if there has been a watering down of transparency as a result of AEI not conducting such negotiations.

AEI's marketing newsletter, "*Aim High*" includes the invitation, "... *directors appreciate feedback of all kinds. Please make your views known to them.*" While laudable in its claim, I have found my offered feedback to be both unwelcome and met with an unwillingness to share information to attain fully researched, transparent and considered outcomes.

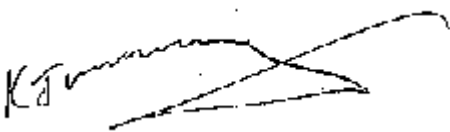
Keeping shareholders informed about any issues of contention and asking for feedback to guide the Board in its decisions should be both a priority and a matter of course.

Further information: mccready@brisnet.org.au
www.geocities.com/kevin_mccready_au www.brisnet.organisation.au/~mccready

For your information many pertinent documents (including the new Steiner school revelations) have been compiled for shareholder access in the website www.AustraliUnethical.com and I invite other candidates to submit material on a similar basis. For read-only access as an AEI shareholder please use the keys:

User: austun Password: viewerport

Please also provide your email address to ensure your ongoing access to the evolving critique of Ethical Investment in Australia through occasional electronic newsletters.



5 October 2009



“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

(citation from the inside front cover of our offer documents for over a decade)

Trevor Roland Lee, B Arch (hons), ARAIA

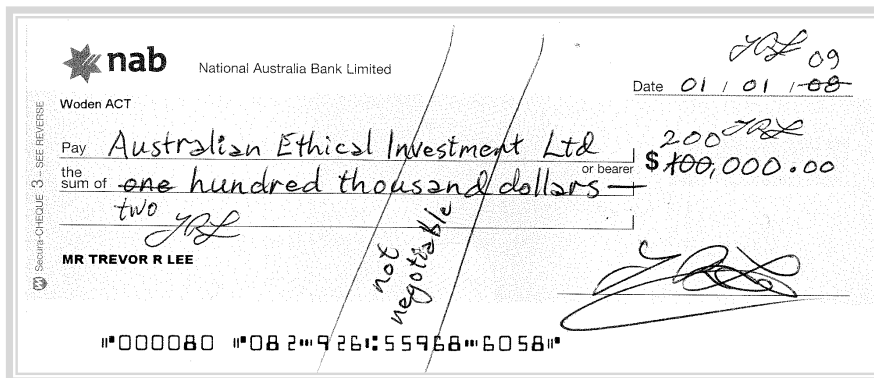
I was proud to have served as an executive director for around 12 years until 2004 and to have been an integral part of our company’s early growth. I now qualify as an independent director and I am accordingly offering myself to serve in that role to establish the next accelerated phase of our company’s growth.

My motives for offering myself at this time are three fold:

- to play a role in tackling and rooting out of corrosive practices within the current Board,
- to re-establish its will and capacity to innovate positive environmental and social change through the medium of investment and
- to assist it in developing our relationship with financial planners who guide the bulk of superannuation and personal investment funds inflow in the funds management industry.

Corrosive practices within the current Board

I am greatly concerned that, for over five years, the current Board has avoided the hard questions that I asked as a director in 2004. A fellow shareholder, Dr Robert Pearson, raised the matter of the most recent manifestation of this in his motions regarding the veracity of the 2006 AGM minutes and, in that particular case, of the probity of the then Chair and the other directors present. Although he was only pointing out the obvious, he met with a bully-boy response of legal threat that mocks our company’s claims to ethical and transparent governance.



As I have said before, I believe that the candid answering of those questions will reveal dubious acts and possible breaches of the Corporations Law on the part of senior management and of executive directors which demand corrective action. Accordingly, I

have already committed to pay the costs of an independent internal enquiry if it finds no wrongdoing and also to provide a \$100,000 bond to silently accept its outcome. Despite the capacity of such a review to clear the air and its good name, the Board declined that offer. Given that one of its requirements at the time was a bond of \$2 million, I offer to come closer to the Board’s demands and **double my offered bond size to \$200,000**. As one of your independent directors, I will ensure that this internal probity review is carried out and its findings acted on.

It is refreshing to see that the recruitment materials for our new CEO include an explicit reference to the personal attributes required:

- Demonstrable commitment to the ideas enshrined in the Ethical Charter of AEI
- High level of personal integrity and honesty.

But this will not, of itself, be enough. A truly ethical company cannot be built on corroded foundations and so the past errors must be openly dealt with.

Generate positive environmental and social change

The company has stagnated in recent years in its claimed role of being an initiator of environmental and social change through prudent but innovative investment selection. Despite its growth and increased potential for diversity, instead of leading Australian advances in its field, like the establishment of a niche and truly green property trust (attempted now after a decade of tarrying), it lazily set up an international share trust/strategy option to dabble in a field in which it has limited credibility and no hope at all of being influential – or even noticed. Already that Trust, so ill-timed, has been closed to retail investors. Australian Ethical was established to lead the investment community in a transformation to a fully sustainable and just society but the current Board is allowing it to drift into insignificance when we should be building both our reputation and our industry respect in accelerating this crucially important transition.

And, more importantly in my opinion, I don't see the company surviving in the long term if it continues along its current path. The new CEO's manifest includes an explicit brief to focus on two broad categories identified for improvement:

- Marketing, distribution and market presence and
- Corporate Culture (to energise and re-invigorate senior management and employees).

But they will need active board support to bring that about.

Relationship building with the financial planning industry

By now, Australian Ethical should have more than \$1 billion under management. Instead, its funds inflow is lamentable and this is largely due to the appalling relations it has with the financial planning industry. These gatekeepers and guiders of the bulk of private small scale investment have been so shabbily treated by our company that they shun us whenever their ethics permit. I am not suggesting that financial planners are without fault but they are progressing rapidly in their quest to adopt high professional standards and it is massively counterproductive for us to be attacking them and undermining them in the eyes of our common clients. No-one wins from the encouragement of unadvised investment in our products. Our clients suffer from inappropriate selection and tax-ineffective structures for their investments. Financial planners suffer reduced access to some of the finest investors in the land. And we suffer from reduced inflow from the largest source of future business by far. At the same time, we squander large salaries on a dubious quest to attract the volatile and demanding wholesale funds whose managers will not appreciate what we offer anytime in the next decade.

Please consider your vote for the Board at this pivotal time. I urge you to consider the direction you want your company to take and to direct your proxy vote in my favour (either by giving your proxy to me or by directing your preferred proxy to vote for my candidature in this important determination of the structure of your Board).

Trevor Lee, 32 Fihelly Street, Fadden ACT 2904,
phone 02 6291 3391, tlee@tpg.com.au