

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.



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

A handwritten signature in black ink, appearing to read 'Naomi Edwards'. The signature is fluid and cursive, written over a light-colored background.

Naomi Edwards
Chair

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

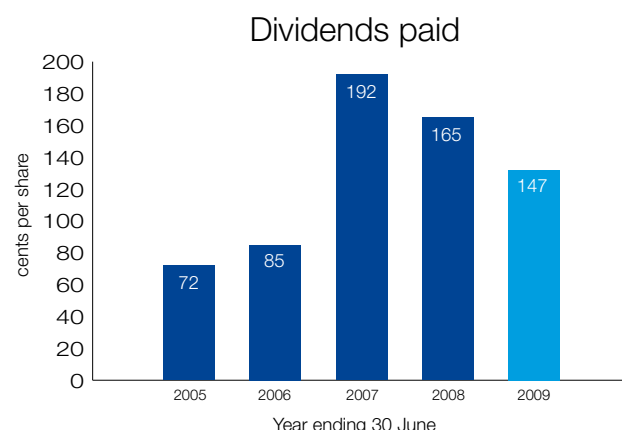
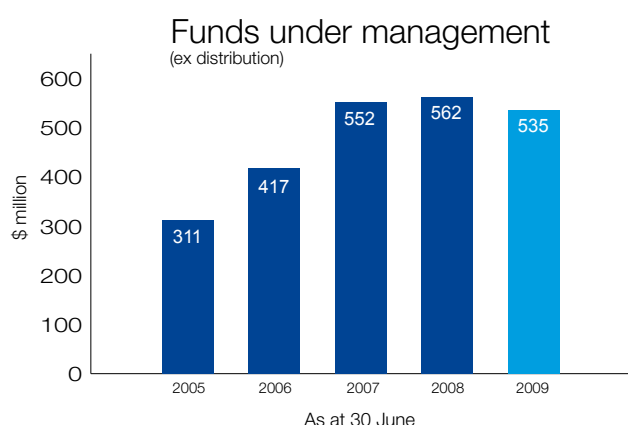
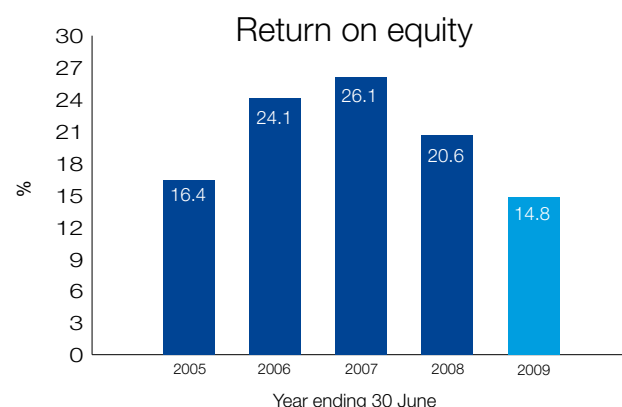
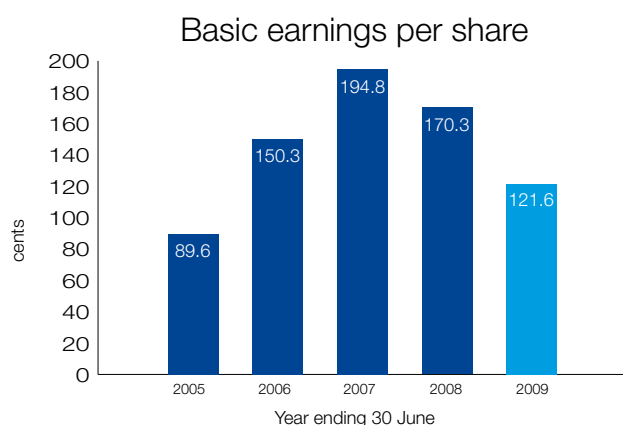
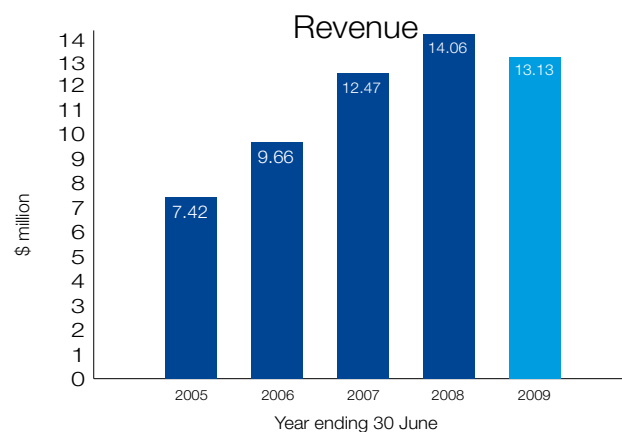
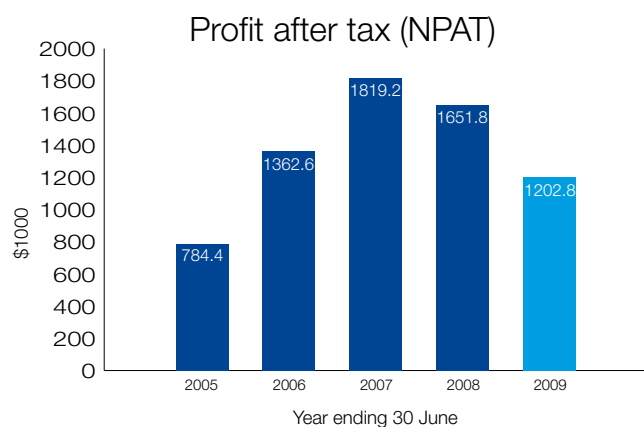
CARE Australia
Condobolin and Districts Landcare
East Timor Women Australia
Hope Street - Urban Compassion
International Women's Development Agency
New Internationalist Publications
NSW Wildlife Information Rescue & Education Service
Sea Turtle Foundation
Spinal Cord Injuries Australia
The Cerebral Palsy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

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