

# australian**ethical** SHAREHOLDER NEWSLETTER

April 2011

# Managing Director's report

Australian Ethical is a very special company which has carved out a unique place in the Australian investment landscape. We were a pioneer in the field of socially responsible investing and we remain the most committed financial services organisation to the sector.

These inherent strengths give us a fantastic foundation from which to continue to prosper. Interest in ethical investment continues to grow as investors become increasingly concerned about environmental and social issues and want their concerns taken into account by their advisers and fund managers. Our reputation for true to label investing and pioneering history gives us an authenticity and unique point of difference in the financial services marketplace.

Against this backdrop, these are some of the most challenging times that financial markets, and retail funds management firms in particular, have seen for some time. Investor nervousness remains high, particularly following the second wave of market volatility in early 2010. Consequently, investment flows across the industry into retail managed funds remain subdued. The regulatory environment in the financial services industry is also undergoing significant change. This new environment will be more challenging and competitive, with pressure on fee structures and hence revenues.

These factors impacted on the half-year results to 31 December 2010 in a number of ways. The subdued inflows reduced the revenues from our up-front fees and we took some initiatives to adjust fees across a number of our products in response to the changing market conditions. Whilst the benefits of these fee adjustments should flow through in improved inflows over time, they reduce revenues in the short term. We also continue to invest in both our client service infrastructure and our administration systems (explained further on page 3) critical for the new environment which has impacted on our costs.

Despite these challenges, we remain confident of our strengths and the special position we occupy in the market. We have an unwavering commitment to our ethics, strong investment performance, a dedicated team and a loyal and supportive band of investors and advisers. It is a unique business with a strong point of difference that will hold us in good stead as we navigate the changing environment of the next few years.



*Phillip Vernon - Managing Director*

The full results for the half year to December 2010 are available at <http://australianethical.com.au/asx-announcements>. Also, my address at our Annual General Meeting in November last year outlines in some detail the issues facing our industry and our strategic priorities. If you haven't read this address I would encourage you to do so. It is available on our website at <http://australianethical.com.au/newsletter/results-half-year-ended-31-december-2010>.

Thank you for your continuing support.

A handwritten signature in black ink, appearing to be 'P. Vernon', written over a horizontal line.

Phillip Vernon - Managing Director

# Managing Director's report

## Client service

In a difficult market environment, good client service is critical to success. In the past year we have invested in both staff and systems. This has improved our service, retention levels and sales support. We have also established a dedicated team to service advisers and platforms.

## Building adviser inflows

Whilst we currently enjoy most of our adviser support from the network of ethical advisers, we continue to broaden our reach into the adviser market in general. From the adviser's point of view it is important that our products are available on the administrative platforms they use and we have been working to get our products listed on the most effective range of administrative platforms.

## Financial advice

From April we will offer clients limited financial advice either directly or by referral to an ethical adviser. The capacity to provide advice to clients enables us to assist clients when they are at various life stages, such as pre-retirement, transition to retirement or full retirement. We expect an advice service will help us in retaining more clients and their super as their situations change.

## Superannuation

Inflows into our superannuation fund remain steady. The fund is one of the few ethical retail super funds in the market and there are employers for which we are the natural default fund. We don't currently have the penetration of this market that we should, and we are giving this business division focused effort in the immediate future.

## Climate Advocacy Fund

The Climate Advocacy Fund launched its resolutions for 2010–11 in July 2010. Resolutions were lodged with four ASX listed companies seeking – improved disclosure about levels of carbon emissions, assumptions in regard to future carbon prices and adoption of targets for reduced carbon emissions. Over the 12 months to February 2011 the fund returned 1.4% in excess of its benchmark, the S&P/ASX 200 index.

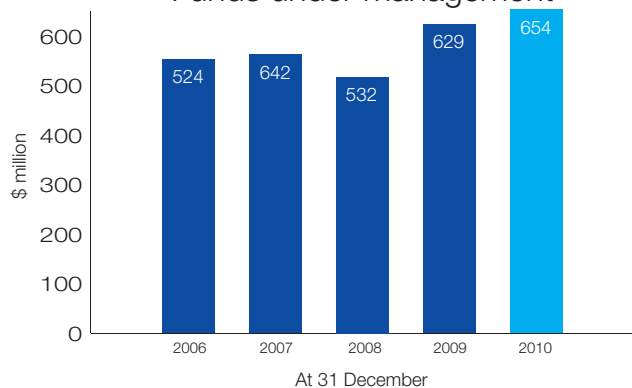
## Website development & social media

Consistent with our focus on better serving our clients, we have invested in enhancing our website and developing our social media presence. New features include a mobile version of the website and an online join feature for new super members. We have started using Twitter to communicate with our community of investors on ethical issues and our latest activities.

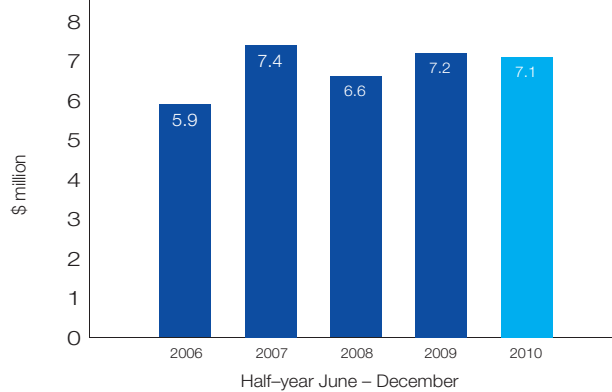
# Financial summary to 31 December 2010



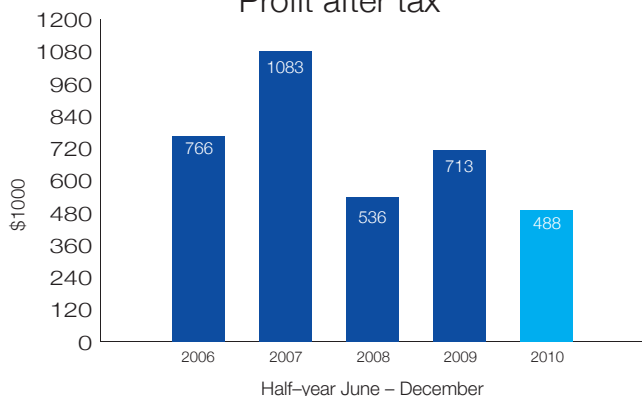
### Funds under management



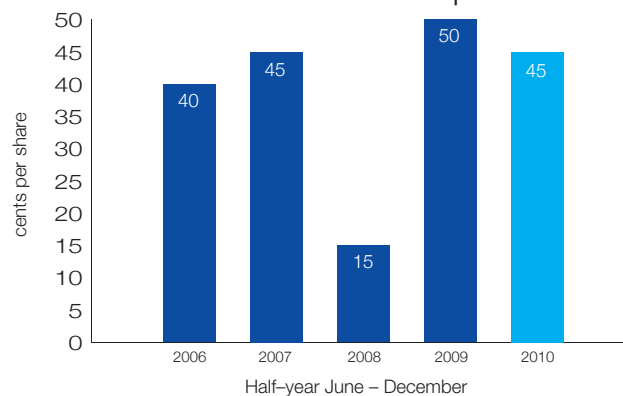
### Revenue



### Profit after tax



### Interim dividends paid



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## Shareholder contacts:

### Tom May

Company Secretary  
 Phone: 02 6201 1953  
[tmay@australianethical.com.au](mailto:tmay@australianethical.com.au)

## Share registry:

### Registries Limited

Phone: 1300 737 760  
[callcentre@registriesltd.com.au](mailto:callcentre@registriesltd.com.au)