

## June 2010

### James Jordan takes on chief investment role



Australian Ethical has appointed James Jordan as its new Chief Investment Officer, replacing Martin Halloran who departs the company on 30 June.

James has been a part of the Australian Ethical investment team since 2006, most previously as the Head of Research. He was also the Acting Chief Investment Officer for much of 2008.

As Head of Research, James has had responsibility for all analysts within the team and has driven significant improvements over that time to Australian Ethical's investment disciplines, research processes and valuation methodologies.

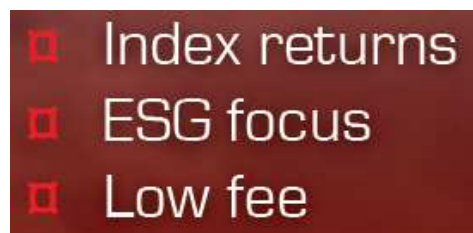
Prior to joining Australian Ethical James had a long career as a senior economist with various Commonwealth Government departments. Highlights of his career in government included being senior adviser on taxation and superannuation policy, being a member of the working group that prepared the first Intergenerational Report and working on reform options for pharmaceutical pricing and health system financing.

James replaces Martin Halloran, who will depart the company on 30 June to take up a senior position in the Australian Public Service.

### Indexing with a voice – the Climate Advocacy Fund

The Climate Advocacy Fund is an exciting new way to influence corporate behaviour in Australia while achieving index returns. Australian Ethical will endeavour to improve the climate change performance of some of Australia's largest companies by proposing and supporting resolutions at annual general meetings (AGMs).

The Climate Advocacy Fund takes a different approach to responsible investment than Australian Ethical's current suite of funds. While Australian Ethical's other investment options only invest in companies with exemplary ethical, social and environmental performance, the Climate Advocacy Fund will invest in all of the largest companies listed on the Australian share market.



The fund is the first of its kind in Australia. While governance issues such as director remuneration have been relatively well covered by shareholders and fund managers, there have been no environmental or social resolutions proposed at Australian company AGMs in the last five years.

In this way the fund will have a similar strong focus as Australian Ethical's other funds, but will go about the process in a very different way.

At the heart of this investment product is an index fund considered capable of outperforming mainstream indices by using an 'economic footprint' weighting rather than a conventional 'market capitalisation' approach.

Instead of weighting companies in a portfolio on the basis of share price and shares on issue, real variables such as sales and cashflow are used. This approach is designed to avoid limitations of a traditional index fund which is based solely on share price, leading to funds holding excessively large proportions of over-priced shares and smaller proportions of better value shares.

Historically, portfolios constructed using the economic footprint model have tended to out-perform the broad share market index in the vicinity of 2-3% per annum.

The Fund will be available as both a managed fund and superannuation option. For more information visit [www.climateadvocacyfund.com.au](http://www.climateadvocacyfund.com.au), or email James Thier at [jthier@australianethical.com.au](mailto:jthier@australianethical.com.au).

## Green property fund receives Investment Grade rating

The Australian Ethical Property Trust has just received an Investment Grade rating from research group Lonsec. This is the first rating received by the Property Trust since being launched in October 2009.

The portfolio manager for the Property Trust, Robert Sharf, considers the Investment Grade rating as a good result for a new trust underlining its quality assets coupled with low gearing. The latest valuation for the flagship property at 64 Allara Street, Canberra (5/5/10) shows an increase of value to \$19.8m, representing an increase of 7% over purchase price in June 2009.

The Allara Street property is an A Grade commercial building which has a 5 Green Star rating from the Green Building Council of Australia.

The aim of the Property Trust is to manage a property portfolio with investments in energy and resource efficient buildings, medical facilities, social infrastructure and properties with opportunities to retro-fit and refurbish to a 5 or 6 Star Green Star rating.

## Australian Ethical appoints Head of Client Relationship

Australian Ethical has bolstered its client service and business development capabilities with the appointment of Tim Xirakis as Head of Client Relationship. Tim will focus on direct relationships with dealer groups, platforms and wraps, and with our leading advisors, employers and high net worth clients. The role has been designed to ensure investment in Australian Ethical's managed fund and superannuation products are easily accessible, professional, consultative and consistent.

Tim has been a long-standing member of the management team at Australian Ethical and has a broad range of skills and experience across all areas of the business. He previously owned and operated a full financial services business including stock broking services, financial planning, accountancy and taxation services, insurance and mortgage brokerage, and estate planning (the forerunner to the current RBS Morgans business in Canberra).

Tim will be contacting and meeting with a number of advisers over the following months seeking feedback on Australian Ethical's service and products.

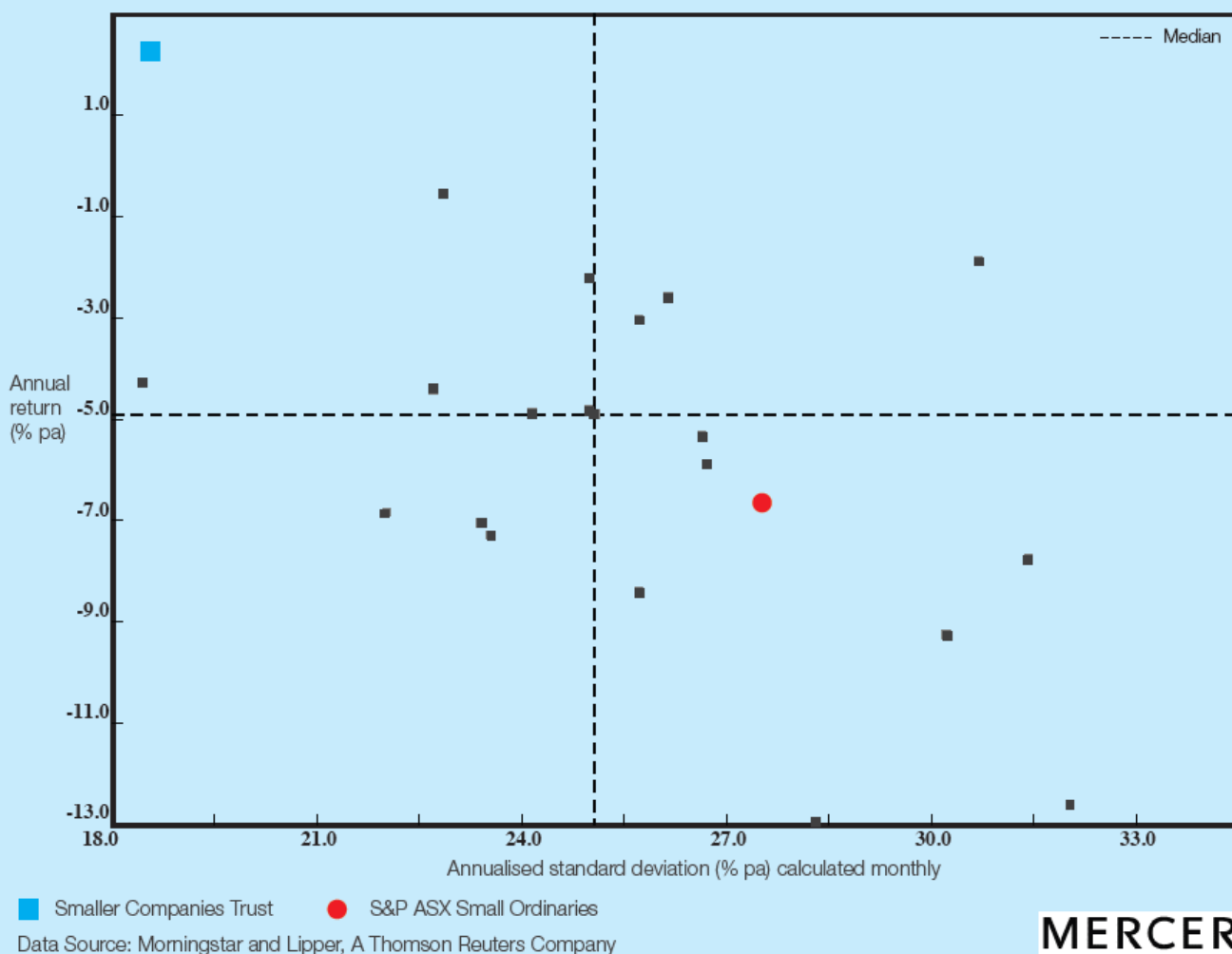


**Smaller Companies Trust – high performance, low risk**

The Australian Ethical Smaller Companies Trust continues to be a strong financial performer. As the chart below shows, the Smaller Companies Trust has not only been able to provide the highest three year return in it's category, it has achieved this at a much lower level of volatility than its competitors.

**Australian Ethical Smaller Companies Trust**  
High return with low volatility

Comparison with the Mercer Retail-Equity - Australia - Small Cap Universe  
Annualised Risk and Return for 3 years ended March 2010 (before tax and after fees)



## Investment analyst has sweet time at Herman Miller

Australian Ethical's investment team undertake thorough research of all the companies we invest in, as well as potential companies for investment. This includes visits with company management at their work sites, including companies based overseas. Analyst Nathan Lim reported about his recent visit to US based Herman Miller, and a unique display of sustainability in action:

'I am standing in front of the Herman Miller Green House Facility, home of the Aeron chair. I am immediately taken by the serene atmosphere complete with chirping birds despite I-196 just being a stone throw away. One could be forgiven for not realising that inside the neatly sited building in front of me is a billion dollar enterprise.

'I have been sent here to assess the direction of the company given the ongoing recessionary conditions in the US and launch of the Setu chair, a direction previously thought undoable amongst Herman Miller veterans. The Setu is part of Herman Miller's push into lower price points and a wider range of products. Through good design and engineering, they have produced a line that so far seems to have dovetailed into the existing brand while simultaneously maintaining profitability.

'I am also treated to probably the best lean manufacturing implementation that I have ever seen. In 10 years the production of the Aeron chair has gone from five lines utilising three shifts to produce a chair every 82 seconds, to today where one line with two shifts produces the same chair in 21 seconds. This efficiency gain has not only seen a reduction in headcount on the Aeron line but the method has been so successful that this building now has 13 production lines, a source of strong local employment that came from innovation, not charity or subsidy.

'As I am preparing to leave I am handed a bottle of honey with the following story. Back in 2000 the facility became infested with paper wasps. In keeping with Herman Miller's principles, they sought a solution that did not involve pesticides. It turns out that honey bees are natural enemies and very territorial. 600,000 honey bees were set-up across the way from the facility. Within five months, the wasps were no longer an issue. As a side consequence, Herman Miller now produces almost 2,400 lbs of honey annually! This honey is given to all guests of the facility and the rest is donated to charity.



'Looking back at the facility as I start heading to my next meeting, one simple message is riveted into my mind - embracing your corporate responsibilities just works.'

## New company profiles

The devices made by **ImpediMed** use bioimpedance technology which allows physicians and veterinarians to determine body composition, useful when diagnosing a range of conditions including Barrett's esophagus, the rejection of organ transplants, and heart problems. The company has specifically designed a device that allows lymphedema to be detected in its early stages. Lymphedema is a condition caused by a failure of the lymphatic system to drain fluid from tissues.

**Aixtron** is a provider of deposition equipment to the semiconductor industry based in Germany. The company's products are used in the LED lighting and solar panel industry. LED lights are an extremely efficient form of lighting compared to traditional modes of lighting.