

Australian Ethical Investment Ltd

Sustainability report 2006



australian**ethical** 

investment + superannuation

for investors, society and the environment

Australian Ethical Investment Limited
ABN 47 003 188 930

GPO Box 2435
Canberra ACT 2601

Telephone: +61 2 601 1988
Facsimile: +61 2 6201 1987
Email: trustadmin@austethical.com.au
Website: www.austethical.com.au

Contents

Strategy and Analysis.....	1
Chief Executive Officer’s Statement.....	1
Company profile.....	3
The Australian Ethical Charter [®]	5
Report parameters	6
Report profile.....	6
Report scope and boundary	6
Assurance.....	9
Governance, commitments and engagement.....	11
Governance.....	11
Commitments to external initiatives.....	22
Stakeholder engagement.....	24
Management approach and performance indicators.....	29
Economic performance indicators	29
Environmental performance indicators	35
Labour practices and decent work performance indicators	48
Human rights performance indicators	58
Society performance indicators	59
Product responsibility performance indicators	61
Concluding remarks	68
Appendices	69
Appendix A – Organisations awarded grants under Australian Ethical’s community grants program – 2005	69
Appendix B – Organisations awarded grants under Australian Ethical’s community grants program – 2006	70
Global reporting initiative indicators	71
GRI content index.....	71
Financial services: social performance indicators	80
Financial services: environmental performance indicators	81
Glossary.....	82
References	83
Feedback form.....	84

Strategy and Analysis

Chief Executive Officer's Statement

The release of the Global Reporting Initiative's (GRI) G3 Guidelines will mark 2006 as the start of a new direction for sustainability reporting internationally. With our fifth sustainability report, Australian Ethical is hoping to lead the way for small and medium sized enterprises (SMEs) in the adoption of the G3's enhanced system for reporting economic, social and environmental performance. Australian Ethical's fifth sustainability report also means some more steps towards our long-term goal of reporting on all of the GRI indicators.



The year 2006 also saw the beginning of a new era of mainstream media focus on sustainability issues. The increasing acceptance of the ideas and practices of a sustainable society and sustainable business in Australia represents an enormous opportunity for Australian Ethical. Our long-standing and stringent approach to sustainability, exemplified by our stance against uranium and expertise within the renewable energy sector, makes Australian Ethical attractive to growing numbers of people. The challenge arising from the growing acceptance of the sustainability concept is for Australian Ethical to use its expertise to add value to the public debate.

The increased recognition sustainability has gained in mainstream society has been matched with an increased acknowledgment that unsustainable practices contain financial risks. Accepting that unsustainable business practices may be detrimental to the profitability of companies and to investor returns has led to regulatory changes, for which Australian Ethical is prepared. Companies are currently required to disclose environmental, social and governance (ESG) risks in any product disclosure statement (PDS). More fund managers now also consider ESG risks when making investment decisions. As with the increased mainstream media attention sustainability has received in the last year, these developments within the finance industry serve to increase the appeal of Australian Ethical whilst offering us an opportunity to move the debate onto a more sophisticated level.

Other challenges still exist for an ethical fund manager in the current Australian market. The ongoing resources boom taking place in Australia is having a substantial impact on the market. One resulting challenge for Australian Ethical is to match the performance of the market without exposure to this sector. Managing the expectations of investors and unitholders, effectively communicating the funds' performance and Australian Ethical's commitment to its long-standing investment principles, remain ongoing needs for us in the current environment.

On an operational level, Australian Ethical's ongoing challenges include attracting and retaining staff due to the company's size and location. Managing the expectations of staff by maintaining competitive remuneration and conditions, and the expectations of investors and unitholders, will remain a focus for the short, medium and long-term.

Moving the company's head office to Trevor Pearcey House is an integral aspect of Australian Ethical's short and medium-term sustainability goals. The building is being refurbished with the aim of achieving a five star Green Star Certified Rating. In the short term, the energy efficiency systems of the Trevor Pearcey House premises will represent an instant reduction in the resources used by the head office. In the medium term, the move to Trevor Pearcey House will allow the company to set specific quantitative targets for environmental performance and to establish best practice principles for others to follow. The current premises make achieving targets difficult as numerous other businesses are billed through single water and energy meters. This has been a prohibiting factor to setting performance targets to date.

Australian Ethical recognises that there is a financial incentive to having both deep green products and a deep green approach to its operations. The company also recognises failing to adopt a genuinely deep green approach to either side of the sustainability coin will expose it to strong reputation risks. This is due, primarily, to how Australian Ethical is marketed and to whom its products are marketed. As a result, the concept of sustainable business is not only adopted on an operational level, it is present in all aspects of Australian Ethical's decisions and is a feature of the company's foundation documents.

Australian Ethical's key achievements for 2005–06 include a substantial increase in the sum donated to community organisations. The amount donated in 2006 reached \$170 132, increased from \$98 227 in 2005. The company was also recognised for its commitment to sustainability reporting in 2006 by the Association of Chartered Certified Accountants.

As always, we welcome any feedback from our stakeholders on how to improve our reporting on the sustainability issues at the centre of our business. Readers may submit questions and comments via the Australian Ethical website

www.austethical.com.au.



Anne O'Donnell
Chief executive officer

Company profile

Australian Ethical Investment Ltd is an independent fund manager based in Canberra, Australia. The company was established in 1986 for the purpose of pooling investor savings, specialising in environmental and socially responsible investment. It originally managed a private ethical trust until 1989, when what is now the Australian Ethical Balanced Trust opened for public subscription. Australian Ethical became a publicly listed company on the Australian Stock Exchange in December 2002. As at 30 June 2006 the company had \$417 million in funds under management on behalf of approximately 16,000 unitholders and superannuation members. At the end of this reporting period Australian Ethical had 42 full-time equivalent staff working for the company. The revenue for Australian Ethical for the year to 30 June 2006 was \$9 661 723, which is an increase of 30 per cent on the previous financial year.

The company has a commitment to improve the ethics of corporate Australia and promote ecologically sustainable and socially just enterprises through judicious investment throughout Australia as well as internationally. It currently manages four public unit trusts: the Income Trust, Balanced Trust, Equities Trust, and Large Companies Share Trust. Since November 1998, its wholly-owned subsidiary, Australian Ethical Superannuation Pty Ltd, has been Trustee for four accumulation and four pension superannuation strategies – each modelled on one of the four Australian Ethical Trusts.

All investments are selected to assist in:

- achieving a just and sustainable society,
- protecting the natural environment,
- providing a competitive financial return to investors.

To do this, all investments are selected using the Australian Ethical Charter (see page 5) which aims to provide investment support to environmental and socially positive activities such as recycling, conservation, energy efficiency, preservation of endangered species, animal welfare, workplace relations and a range of related issues.

As part of the management company's Constitution, 10 per cent of annual profits are donated to non-profit, charity, benevolent and conservation organisations.

Review of Operations

During the 2005–06 financial year the company did not make any significant changes to its core funds management operations. There were no significant changes

in management or organisational structure. During the year the company purchased Block E of Trevor Pearcey House, Traeger Court, Bruce in the Australian Capital Territory. The company intends to undertake an environmentally exemplary refurbishment of the premises at Trevor Pearcey house prior to re-locating in March 2007.

The company's capital structure and policies remain relatively simple. The company currently has no debt and our capital is invested conservatively. During the year, a significant portion of the company's capital was invested in real estate, with the acquisition of Trevor Pearcey House.

As announced at the company's annual general meeting in November 2006, Australian Ethical intends to establish an international trust in the first half of 2007 (the Australian Ethical World Trust). At this stage, Australian Ethical would expect that the Australian Ethical Superannuation Fund will also offer a World Strategy through corresponding investment in the World Trust. The company will keep unitholders and members informed as establishment of the new trust progresses.

Awards

In May 2006, Australian Ethical received an award from the Association of Chartered Certified Accountants for continued high quality sustainability reporting for a small to medium-sized enterprise. This is the second award from the association in three years. The association recognises an excellent sustainability report as one that clearly acknowledges and explains the environmental and social impacts of an organisation's operations and products, and demonstrates the organisation's policies, targets and long-term objectives to reduce any adverse environmental and social impacts.

Comments from the judging panel included:

- 'Australian Ethical Investment reports at a very comprehensive and meaningful level, and the quality of its report is outstanding given the company's small size.'
- 'Lots of discussion around risk based approach and governance systems supporting that.'
- 'Trend data on relevant environmental impacts on performance adds to the credibility of the report.'
- 'The report gives a good feel for the priorities of the organisation, how they want to position themselves both among peers and in the community.'
- 'The report is a no frills approach which is refreshing in some ways.'

The Australian Ethical Charter[©]

Date of adoption: 1986. Applies worldwide.

The constituting documents of Australian Ethical Investment Ltd, Australian Ethical Superannuation Pty Ltd, all trusts and the superannuation fund contain this Charter.

The Australian Ethical Trusts seek out investments which provide for and support:

- (a) the development of workers' participation in the ownership and control of their work organisations and places;
- (b) the production of high quality and properly presented products and services;
- (c) the development of locally based ventures;
- (d) the development of appropriate technological systems;
- (e) the amelioration of wasteful or polluting practices;
- (f) the development of sustainable land use and food production;
- (g) the preservation of endangered eco-systems;
- (h) activities which contribute to human happiness, dignity and education;
- (i) the dignity and well being of non human animals;
- (j) the efficient use of human waste;
- (k) the alleviation of poverty in all its forms;
- (l) the development and preservation of appropriate human buildings and landscapes.

The Australian Ethical Trusts avoid any investment which will unnecessarily:

- (i) pollute land, air or waters;
- (ii) destroy or waste non-recurring resources;
- (iii) extract, create, produce, manufacture, or market materials, products, goods or services which have a harmful effect on humans, non human animals or the environment;
- (iv) market, promote or advertise, products or services in a misleading or deceitful manner;
- (v) create markets by the promotion or advertising of unwanted products or services;
- (vi) acquire land or commodities primarily for the purpose of speculative gain;
- (vii) create, encourage or perpetuate militarism or engage in the manufacture of armaments;
- (viii) entice people into financial over-commitment;
- (ix) exploit people through the payment of low wages or the provision of poor working conditions;
- (x) discriminate by way of race, religion or sex in employment, marketing, or advertising practices;
- (xi) contribute to the inhibition of human rights generally.

Clause 2.2 of the Australian Ethical constitution obliges the directors of the company to report to shareholders on the pursuance of positive clause (a) above in the Charter and matters generally related to the status of employees at the time of the annual general meeting.

Report parameters

Report profile

This is Australian Ethical's fifth sustainability report and covers the period from 1 July 2005 to 30 June 2006. Australian Ethical has an annual reporting cycle. The most recent report covers the period from 1 July 2004 to 30 June 2005.

For further information regarding this report or its contents, please contact:

Philip George
Company Secretary

Australian Ethical Investment Ltd
GPO Box 2435
Canberra ACT 2601

Phone: +61 2 6201 1988
Facsimile: +61 2 6201 1987
E-mail: companysecretary@austethical.com.au

Report scope and boundary

Defining report content

In defining the report content, Australian Ethical applied the GRI reporting framework's 'Guidance on defining report content' and associated principles. This involved:

- Identifying the topics and indicators considered relevant by undergoing an iterative process using the principles of materiality, stakeholder inclusiveness, sustainability context and completeness
- Considering the relevance of all indicator aspects identified in the GRI guidelines and financial services sector supplements
- Using the tests listed for each principle to assess which topics and indicators were material
- Using the principles to prioritise selected topics and decide which were to be emphasised.

Materiality

GRI defines materiality as the threshold at which an issue or indicator becomes sufficiently important that it should be reported (GRI 2006). It refers not only to

those topics and indicators that have a significant financial impact on the company, but also includes those economic, environmental and social impacts that cross a threshold in affecting the ability to meet the needs of the present without compromising the needs of future generations (GRI 2006, WCED 1987).

In determining which topics and indicators were material, Australian Ethical took into account a number of internal and external factors. These included Australian Ethical's vision and mission statement, the Australian Ethical Charter (page 5), the expectations and interests of stakeholders, and Australian Ethical's sustainability impacts, risks and opportunities.

Australian Ethical considered the majority of GRI core indicators to be material. A number of GRI additional indicators were also considered material, as were the majority of indicators contained in the pilot versions of the financial services sector supplements for social and environmental performance. Topics and indicators were prioritised based on the significance of their economic, environmental and social impact and their influence on the assessments and decisions of stakeholders.

Stakeholder inclusiveness

Australian Ethical has identified a number of stakeholders including employees, shareholders, trust unitholders, superannuation members, financial advisors, investee entities, suppliers, the local community and the greater public in general. Australian Ethical also identifies the environment and future generations as stakeholders.

In preparing this report, Australian Ethical has attempted to meet the reasonable expectations and interests of its stakeholders. The expectations and interests of stakeholders has been sought through a number of engagement processes, including surveys, feedback forms and peer review comment.

Report boundary

This report describes the economic, environmental and social performance of Australian Ethical Investment Ltd and Australian Ethical Superannuation Pty Ltd for the year to 30 June 2006. It does not extend to the activities of the holdings/investments of the trusts and super funds managed by the Australian Ethical group, nor does it extend to the activities of its ethics research provider, the Centre for Australian Ethical Research (CAER).

The reporting of a number of environmental indicator aspects including materials, energy, water, and waste is limited to Australian Ethical's Canberra office and does not include the activities of the six staff working off site. There has been no change in the report boundary since the previous reporting period.

Report scope

The scope of this year's report has been widened to include a number of new topics and indicators. A number of the new indicators are recent additions to the GRI G3 guidelines, while others existed in the 2002 GRI guidelines, but were not reported by Australian Ethical. In addition, this year's report includes indicators from the pilot version of the financial services sector supplement for environmental performance. A list of the GRI indicators covered can be found at the back of this report.

Data measurement techniques

Data has been measured, calculated and compiled according to the new GRI G3 indicator protocols. The application of the new G3 indicator protocols has resulted in the restatement of a number of indicators contained in previous sustainability reports. Indicators that have been restated include:

- Average hours of training per year (LA10) – data is presented in new employee categories and is based on the total number of employees at the end of the reporting year, not average full-time equivalent (FTE) over the entire year (Figure 6).
- Direct economic value generated and distributed (EC1) – data has been restated for 2003–04 and 2004–05 according to the new format outlined in the G3 Indicator Protocol (Table 7).

Restatements

- Greenhouse gas emissions (EN17) – The 30.96 tonnes of CO₂e from air flights reported in 2004–05 was calculated using Greenfleet's 'fuel use only' method, that is the greenhouse gases generated by the burning of aircraft fuel. However, the 'total warming impact' method, which was the method used in 2003–04 should have been used to enable a fair comparison. The 'total warming impact' method includes the indirect effects of releasing greenhouse gases high in the atmosphere, where they have a greater impact than they would if released at ground level. When air flight emissions for 2004–05 were calculated using the 'total warming impact' method, the greenhouse gas emissions were actually 55.30 tonnes of CO₂e, 24.34 tonnes more than recorded in last year's report. The 24.34 tonnes of CO₂e were offset through the purchase of additional 91 trees from Greenfleet (Table 19).
- Paper use (EN1) – data for 2003–04 and 2004–05 has been restated to include A4 sheets from Australian Ethical Superannuation annual reports. Data for 2004–05 also includes a reduction in the number of A4 sheets from Australian Ethical Superannuation PDS and a slight increase in the number of compliment slips used. The effect of this restatement is that paper use in 2003–04 increased by 0.7 per cent from 1 892 171 to 1 905 651, while paper

use in 2004–05 decreased by 7.1 per cent from 1 384 693 to 1 286 622 (Table 9).

- Employee turnover (LA2) – data has been restated for 2003–04 and 2004–05 to exclude casual employees (Table 21).
- Sick Leave (LA7) – data has been restated for 2003–04 and 2004–05 to exclude casual employees as casual staff are not entitled to sick leave (Table 24).

Assurance

Independent external assurance enhances the quality and credibility of a sustainability report. Australian Ethical's policy and practice, since its second sustainability report published in 2003, has been to seek independent external assurance of its sustainability report.

Australian Ethical's 2006 sustainability report was formally reviewed by the firm, Thomas Davis and Company, Chartered Accountants. Thomas Davis and Company also audit Australian Ethical's financial report. Thomas Davis and Company visited Australian Ethical's Canberra office on 23 February 2007 and spent a total of 25 hours reviewing the financial/numeric data contained in the report (for example, energy, employee and waste data). A report resulting from this review was provided to the Directors of Australian Ethical and is presented on the following page.

THOMAS DAVIS & CO.

(ESTABLISHED 1894)

CHARTERED ACCOUNTANTS

Liability limited by a scheme approved
under Professional Standards Legislation

23 March 2007

The Directors
Australian Ethical Investment Limited
Block E, Trevor Pearcey House
Traefer Court, 34 Thynne Street
BRUCE ACT 2617

Dear Sirs,

Independent Review Report to the Directors

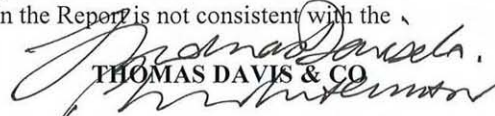
The 2006 Sustainability Report (“the Report”) of Australian Ethical Investment Limited summarises the economic, environmental and social performance of Australian Ethical Investment Limited for the period 1 July, 2005 to 30 June, 2006. Australian Ethical Investment Limited management is responsible for the content of the Report. We agreed with Australian Ethical Investment Limited management to independently review the financial data (including paper use, energy use, employee, office space and waste data) in the Report and to report on the scope of our review procedures and our findings.

We have conducted our review in accordance with Australian Assurance Engagements Standard AUS 108 “Framework for Assurance Engagements” and relevant Australian Auditing Standards. The level of testing and verification undertaken in this review provide less assurance than an audit and does not allow us to provide an audit opinion.

Our review work included:

- Interviews with management responsible for financial data reporting.
- Review of systems and procedures used during the collation and reporting of the financial data.
- Review of the financial data to test the accuracy and reliability of the financial data with source documentation, on a sample basis; and
- Review of the Report in respect of financial data to assess consistency with the findings of the work completed.

Based on our review, we report that nothing has come to our attention that causes us to believe that the financial data presented in the Report is not consistent with the source documentation.


THOMAS DAVIS & CO
P.L. WHITEMAN PARTNER

Chartered Accountants

 **msi** LEGAL & ACCOUNTING
NETWORK WORLDWIDE
Thomas Davis & Co is a member of MSI,
a network of independent professional firms

www.thomasdavis.com.au



112

PLEASE ADDRESS ALL LETTERS TO
BOX 492 G.P.O.
SYDNEY, N.S.W. 2001

TELEPHONE: (02) 9232 1188
FACSIMILE: (02) 9231 6792
EMAIL: mail@thomasdavis.com.au

A.N.Z. BANK BUILDING
68 PITT STREET
SYDNEY 2000

Governance, commitments and engagement

Governance

Governance structure

Australian Ethical has a unitary board structure. The Australian Ethical Investment Ltd board (and its committees) have responsibility for the oversight and audit of company's economic, environmental and social policies and procedures. The responsibility for implementation of these policies and procedures rests with Australian Ethical's chief executive officer, Anne O'Donnell.

Board responsibilities

Australian Ethical has formalised the functions reserved to the board and those delegated to management. Responsibility for any function not delegated to management remains with the board.

The primary responsibilities of the board include:

- appointment and appraisal of the performance of the CEO;
- the approval of annual financial statements;
- the establishment of the goals of the company and strategic plans to achieve those goals;
- the review and adoption of annual budgets for the financial performance of the company and monitoring the results on a regular basis; and
- risk management, including ensuring that the company has implemented adequate systems of internal controls, together with appropriate monitoring of compliance activities.

Independent directors

The company regards an independent director as a director who is not a member of management (that is a non-executive director) and who:

1. is not a substantial shareholder of the company or an officer of, or otherwise associated directly with, a substantial shareholder of the company;
2. has not within the last three years been employed in an executive capacity by the company or another group member, or been a director after ceasing to hold any such employment;
3. within the last three years has not been a principal or employee of a material professional adviser or a material consultant to the company or another group member, or an employee materially associated with the service provided;
4. is not a material supplier or customer of the company or other group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
5. has no material contractual relationship with the company or another group member other than as a director of the company;

6. has not served on the board for a period which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the company;
7. is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the company.

Unless there are specific qualitative factors relevant to the relationship, the board is generally of the view that a quantitative materiality threshold arises at 10 per cent of the relevant amount – considered from both the company's perspective and that of the other party.

Board composition

The board of Australian Ethical did not comprise a majority of independent directors during the reporting period. For almost all the reporting period, the board comprised a majority of executive directors (three out of the five directors on the board through most of the reporting period; Table 1).

Table 1: Directors of Australian Ethical during the 2005–06 financial year

Name	Time in office	Position	Independent	Committee memberships
George Pooley	5 years	Chair, Non-Executive	Yes	Audit Remuneration (Chair) Finance Compliance (Chair)
Ray De Lucia	4 years – Resigned 10/10/05	Director, Non-Executive		Audit – Resigned 10/10/05
Caroline Le Couteur	15 years	Director, Executive		Remuneration
James Thier	15 years	Director, Executive		Investment Compliance
Howard Pender	15 years	Director, Executive		Finance Investment
Naomi Edwards	1 year	Director, Non-Executive	Yes	Audit (Chair) – Commenced 14/10/05 Remuneration

Pauline Vamos was appointed to the board as an independent non-executive director on 1 July 2006. On 13 October 2006, George Pooley resigned as chair of the board, as a director of the company and as a director of its subsidiary, Australian Ethical Superannuation Pty Ltd. On the same day, the board appointed Pauline Vamos as chair.

As at 1 March 2007 the board had three independent non-executive directors. They were the chair, Pauline Vamos; Naomi Edwards and Justine Hickey. Howard Pender, Caroline Le Couteur and James Thier are the executive directors (Table 2).

Table 2: Directors of Australian Ethical as at 1 March 2007

Name	Time in office	Position	Independent	Committee memberships
Pauline Vamos	<1 year – Commenced 1/07/06	Chair, Non- Executive	Yes	Audit Remuneration (Chair) Finance Compliance (Chair)
Caroline Le Couteur	15 years	Director, Executive		
James Thier	15 years	Director, Executive		Investment Compliance
Howard Pender	15 years	Director, Executive		Finance Investment
Naomi Edwards	1 year	Director, Non-Executive	Yes	Audit (Chair) – Commenced 14/10/05 Remuneration
Justine Hickey	<1 year – Commenced 1/03/07	Director, Non-Executive	Yes	Investment (Chair)

This board composition is a result of the way in which the company has developed, the long-standing commitment of the executive directors and the contribution that they make to board deliberations. In particular, the executive directors have a strong understanding of the Australian Ethical Charter and the implementation of the Charter over a long period. The executive directors play a pivotal role in pursuing the aims of the Charter at all levels of the business.

Since listing on the Australian Stock Exchange, the board has undergone change in its composition and structure. The future board composition will be guided by whether the board considers it has the right balance of director competencies for governance, to further the Australian Ethical Charter and to monitor and increase company performance. Over time, and assuming the availability of suitable candidates, the board expects to move towards a majority of independent directors.

Committees

The board has established the following committees to assist it in its work: audit committee, remuneration committee, finance committee, investment committee and compliance committee. The role and composition, as at 1 March 2007, of each committee is as follows:

Audit committee:

The audit committee provides a forum for the effective communication between the board and the external auditors. The role of the committee is to advise the board on the maintenance of an appropriate framework of financial internal control and appropriate discharge of 'trading company' fiduciary obligations for the company and its subsidiary, Australian Ethical Superannuation Pty Ltd.

Membership: Naomi Edwards (chair, independent non-executive director), Pauline Vamos (independent non-executive director), Philip George (company secretary, executive).

Remuneration committee:

The remuneration committee monitors adherence to guidelines set by the board in regards to remuneration arrangements and makes recommendations to the board on remuneration for the CEO and directors.

Membership: Pauline Vamos (chair, independent non-executive director); Naomi Edwards (independent non-executive director).

Finance committee:

The finance committee monitors and reports to the board on the financial situation of Australian Ethical. This committee oversees the budget development process and budget preparation, reviews financial trends, claims and contingencies, and examines proposals for expenditure programs.

Membership: Anne O'Donnell (chair, chief executive officer), Pauline Vamos (independent non-executive director), Howard Pender (executive director), Gary Leckie (chief financial officer, executive).

Investment committee:

The investment committee deliberates on the investments for Australian Ethical funds in the four trusts for which Australian Ethical is the responsible entity and for which Australian Ethical has a mandate. Investment committee considerations also include proper valuation of the property of the trusts and investment mandates.

Membership: Justine Hickey (chair, independent non-executive director), David Ferris (investment manager, executive), Alistair Clark (listed equities advisor, employee), James Thier (executive director), Howard Pender (executive director), Anne O'Donnell (chief executive officer).

Compliance committee:

The compliance committee is responsible for assessing and reporting on compliance against the compliance plans for the trusts.

Membership: Pauline Vamos (chair, independent non-executive director), James Thier (executive director), Ruth Medd (independent non-executive director of Australian Ethical Superannuation Pty Ltd, a wholly-owned entity).

Nomination committee:

During the period the company had no nomination committee. The board does not intend to establish such a committee due to the company's size. The functions normally performed by a nomination committee are performed by the board as a whole, or are delegated to the chairperson of the board.

Board and director evaluation

The directors undertake an annual evaluation of their collective and individual performance and seek specific feedback from the senior management team. A component of this evaluation includes assessing the board's performance in regard to the Australian Ethical Charter. An evaluation was undertaken in the 2005–06 financial year.

A questionnaire concerning board and individual performance is completed by each director in respect of themselves and for each other director and the results collected by the board chairperson. The board as a whole considers the results of the questionnaire at a board meeting. The results of the questionnaire are examined from both a qualitative and quantitative perspective.

The results and any action plans are documented in board minutes where these are discussed at a board meeting.

Remuneration

Directors

The aggregate amount of remuneration payable to directors for the performance of their duties as directors is set by the company in general meeting from time to time. In proposing any motions on director remuneration to a general meeting, the board has regard to market rates for directorships in similar companies operating in similar industries. It also has regard to recommendations from its remuneration committee. Within the approved aggregate amount, fees paid to individual directors for services as a director are determined by the board. Currently, the chair receives a higher amount, with other directors receiving an equal amount.

Under the constitution, directors are also entitled to be paid reasonable expenses, remuneration for extra services, retirement benefits and superannuation contributions.

There are currently no explicit linkages between director remuneration and key social and environmental performance indicators.

There are currently no arrangements to pay any director a retirement benefit.

Secretaries, senior managers, executive directors and group executives

The company's fundamental remuneration policy is to treat all staff (including secretaries, senior managers, executive directors and group executives) in an equitable fashion and not to have special remuneration arrangements (including individual performance-based arrangements) for particular staff. All permanent staff (including the CEO, executive directors and secretaries) receive a cash salary and participate in a staff bonus and employee share ownership scheme. These arrangements do not apply to non-executive directors.

Remuneration policy also accords with the Australian Ethical Charter, as set out in the constitution of the company. It is designed to ensure the company does not

'exploit people through the payment of low wages or the provision of poor working conditions'

and to facilitate:

'the development of workers participation in the ownership and control of their work organisations and places.'

The company reviews individual remuneration annually and externally benchmarks remuneration levels every two years. Individual staff remuneration is then considered with reference to the benchmarks and in accordance with guidelines approved by the board. The board aims to remunerate responsibly and fairly, with reference to the market.

All permanent staff are eligible to participate in the staff bonus which is determined by the constitution. Each year the bonus is set with reference to the profit of the company. Each full time staff member receives the same amount, part-time staff receive a pro-rata amount. The constitution provides that the bonus can be (and often has been) satisfied by the issue of shares.

Under the employee share ownership plan a pool of options, which would if exercised, amount to five per cent of the existing ordinary share capital is issued to staff. All permanent staff are eligible to participate in the plan. The price at which the options can be exercised is set 10 per cent in excess of the market price of the shares. The number of options received by an individual staff member depends on their

salary level. Options are not exercisable for a period of three years from their date of grant.

Performance-based remuneration and company performance

The payment of the staff bonus is set by reference to the profit of the company for a relevant year. Higher company profits in a year correspondingly increase the aggregate amount that directors could determine be paid to current employees as a bonus.

Details of options issued under the employee share ownership plan are set out under remuneration policy above. Options are performance based in two ways. Firstly, in most cases, staff must remain an employee for three years from the date of grant of the options to be entitled to exercise them. Option value can only be realised if an employee contributes a significant further period of service to the company. Secondly, option value can only be realised if the market value of the underlying shares increase by 10 per cent between the period of grant and the period when the options can be exercised.

Staff remuneration is not explicitly linked to key social and environmental performance indicators.

Remuneration Details

Details of the remuneration paid to directors and specified executives during the 2005–06 financial year is set out in Tables 3 and 4. This information is reported so as to distinguish between the structure of non-executive director and executive director remuneration.

Table 3: **Parent entity directors' remuneration**

	Short-term employee benefits			Post employment Benefits	Other long-term benefits	Share-based payment		
	Cash salary and fees	Bonus cash	Other	Super		Bonus shares	Options	Total
	\$	\$	\$	\$	\$	\$	\$	\$
2006								
George Pooley	57 188	-	-	-	-	-	-	57 188
Ray De Lucia	3 259	-	-	-	-	-	-	3 259
Caroline Le Couteur	131 882	-	-	11 484	3 196	4 300	7 536	158 398
James Their	124 586	2 153	-	10 300	1 638	1 000	6 048	145 725
Howard Pender	113 237	-	-	10 291	1 791	1 613	3 128	130 060
Naomi Edwards	28 420	-	-	2 558	-	-	-	30 978
Total	458 572	2 153	-	34 633	6 625	6 913	16 712	525 608
2005								
George Pooley	45 964	-	-	-	-	-	-	45 964
Ray De Lucia	12 974	-	-	-	-	-	-	12 974
Trevor Lee	5 000	-	-	450	-	-	-	5 450
Caroline Le Couteur	128 468	-	-	10 639	2 202	3 500	3 141	147 954
James Their	112 845	1 800	-	9 802	1 835	1 000	2 573	129 855
Howard Pender	116 609	-	-	6 132	951	1 225	1 076	120 993
Naomi Edwards	21 689	-	-	1 502	-	-	-	23 191
Total	438 549	1 800	-	28 525	4 992	5 725	6 790	486 381

The names and positions of specified executives in office at any time during the 2005–06 financial year were:

Anne O'Donnell	chief executive officer
David Ferris	investment manager
Mark Bateman	chief financial officer
Philip George	company secretary/legal counsel
Ruth Medd	director of wholly owned entity

Table 4: **Specified executives' remuneration**

	Short-term employee benefits			Post employment benefits	Other long-term benefits	Share-based payment		
	Cash salary and fees	Bonus cash	Other	Super		Bonus shares	Options	Total
	\$	\$	\$	\$	\$	\$	\$	\$
2006								
Anne O'Donnell	172 147	-	-	15 225	4 817	4 300	10 100	206 589
David Ferris	134 878	-	-	11 764	3 044	4 135	8 773	162 594
Mark Bateman	113 643	4 300	-	10 008	3 287	-	7 076	138 314
Philip George	140 622	2 718	-	12 330	2 926	-	5 208	163 804
Ruth Medd	24 710	-	-	1 459	-	-	-	26 169
Total	586 000	7 018	-	50 786	14 074	8 435	31 157	697 470
2005								
Anne O'Donnell	147 608	-	-	12 695	3 229	3 500	3 581	170 613
David Ferris	129 520	-	-	11 025	2 849	3 500	3 189	150 083
Mark Bateman	131 505	-	-	10 766	3 191	3 500	2 498	151 460
Philip George	78 760	-	-	6 545	1 641	-	-	86 946
Christopher Lee	29 569	-	-	2 449	-	3 291	-	35 309
Ruth Medd	17 500	-	-	1 035	-	-	-	18 535
Total	534 462	-	-	44 515	10 910	13 791	9 268	612 946

Economic, environmental and social policies

Australian Ethical's vision

By its operations Australian Ethical will promote a sea-change in community-wide practice such that all investment will be undertaken with an ethical purpose as well as in pursuit of competitive return for chosen risk.

In addition to selecting every investment with which we are involved in accordance with the Australian Ethical Charter, Australian Ethical aims to conduct its operations in accordance with the tenets of the Australian Ethical Charter. In particular we seek to:

- ensure our promotional material is comprehensive, transparent and readily understood;
- achieve a high standard of administrative service for investors in our products;
- ameliorate wasteful or polluting practices in our own business operations;
- encourage, care for and provide educational opportunity for our fellow workers, respect their individual needs and aspirations; and
- nurture staff participation in the ownership and control of Australian Ethical.

Australian Ethical's mission

Short form

for investors, society and the environment

Long form

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

Date of adoption: 26 October 2001. Applies worldwide.

Australian Ethical Charter

The board is bound by the Australian Ethical Charter that is set out in the Australian Ethical constitution. The Charter sets out 23 ethical principles applied across the entire operations and activities of the company (see page 5).

Code of conduct

The board has endorsed a code of conduct which applies to all employees and directors. Australian Ethical's code of conduct is designed to provide guidance to employees and directors on standards expected by the company in everyday business operations. Australian Ethical always seeks to adhere to the code in any dealings with stakeholders. The company also strives to achieve conduct that is over and above current best practice. A summary of the code of conduct outlining specific standards of conduct follows.

Specific standards of conduct:

- we must be aware of conflicts of interest;
- we must not participate in insider trading;
- we must not make unauthorised gains or payments;
- we must only use company assets as authorised;
- we must not disclose confidential information;
- we must ensure everyone has an equal opportunity;
- we must compete fairly;
- we must take into account any environmental, health and safety impacts before making any business decision;
- we must not make unauthorised public statements;
- we must not make unauthorised political donations on behalf of Australian Ethical; and
- we must be familiar with policies and procedures that relate to our work.

A full version of this Australian Ethical code of conduct can be found on Australian Ethical's website: www.austethical.com.au.

The board has also adopted a separate policy for the management of conflicts of interest.

Risk management and identification

The board is responsible for the company's system of internal controls. The board monitors the operational and financial aspects of the company's activities and, through the audit committee, the board considers the recommendations and advice of external auditors and other external advisers on the operational and financial risks that face the company.

The board monitors whether appropriate actions are taken to ensure the company has an appropriate internal control environment in place to manage the key risks identified. It has appointed a director as risk management officer and established a formal statement on risk management, together with supporting documents, Australian Ethical Investment guide for risk management and section risk registers, that document the major risks facing the company, including ethical risks and the way in which these risks are to be managed. The risk registers are updated regularly and the criteria and working standards set out in the guide are periodically reviewed.

A description of the company's risk management policy and internal compliance and control systems is on the company's website.

The chief executive officer and chief financial officer certify to the board that the integrity of the financial statements are founded on a sound system of risk management and internal compliance and control.

The chief executive officer, risk management officer and compliance officer certify to the board that its internal control and risk management systems are operating efficiently and effectively throughout the group.

Commitments to external initiatives

Precautionary principle

Australian Ethical has adopted the precautionary principle in approaching sustainability issues. The precautionary principle states that where there are threats of serious or irreversible damage, that lack of full scientific information should not be a reason to delay cost effective measures to prevent environmental harm. An example of how Australian Ethical is implementing the precautionary principle is through the application of the Charter to investment decisions and involvement with a number of sustainability initiatives and associations (see below).

External initiatives

Australian Ethical is a signatory to the following initiatives:

- *Carbon Disclosure Project*
‘The Carbon Disclosure Project (CDP) provides a secretariat for the world's largest institutional investor collaboration on the business implications of climate change. CDP represents an efficient process whereby many institutional investors collectively sign a single global request for disclosure of information on Greenhouse Gas Emissions’ (CDP 2007)
- *UN Principles for Responsible Investment*
‘The Principles for Responsible Investment aim to help integrate consideration of environmental, social and governance (ESG) issues by institutional investors into investment decision-making and ownership practices, and thereby improve long-term returns to beneficiaries’ (PRI 2007)

Association memberships

Australian Ethical, or its subsidiary Australian Ethical Superannuation, are members of the following industry and business associations:

- *Association for Sustainable & Responsible Investment in Asia (ASrIA)*
Australian Ethical is a founding member of ASrIA – ‘a not for profit, membership association dedicated to promoting corporate responsibility and sustainable investment practice in the Asia Pacific region’ (ASrIA 2007)

- *Association of Superannuation Funds of Australia Limited (ASFA)*
‘ASFA is a non-profit, non-political national organisation whose mission is to protect, promote and advance the interests of Australia’s superannuation funds, their trustees and their members’ (ASFA 2007)
- *Australian Employers Network on Disability*
‘The Australian Employers Network on Disability is a not for profit organisation funded by its members to take a leadership role in advancing employment for people with disability’ (AEND 2007)
- *Ethical Investment Association (EIA)*
‘The EIA’s primary objective is to promote the concept, practice and growth of ethically, socially and environmentally responsible investing in Australia and New Zealand’ (EIA 2007)
- *Global Reporting Initiative (GRI)*
‘The GRI’s vision is that reporting on economic, environmental, and social performance by all organisations becomes as routine and comparable as financial reporting. GRI accomplishes this vision by developing, continually improving, and building capacity around the use of its Sustainability Reporting Framework’ (GRI 2007)
- *Investment & Financial Services Association Limited (IFSA)*
‘IFSA is a national not-for-profit organisation which represents the retail and wholesale funds management, superannuation and life insurance industries’ (IFSA 2007)
- *IPS Worldwide*
‘IPS Worldwide is a human resource, risk management and health services company providing high quality human capital solutions to leading organisations. IPS Worldwide is committed to pushing the envelope by leading development and innovation in tailored workplace programs that assist organisations better manage their human resources, improve the productivity of their employees and their experience of the workplace’ (IPS Worldwide 2007)

Stakeholder engagement

Stakeholder identification

The basis for stakeholder engagement stems from the values and goals as set out in Australian Ethical's corporate vision and mission statements as well as pursuant to the objectives of the Australian Ethical Charter. Australian Ethical identifies stakeholders including employees, enquirers, the local community, and the general public as well as shareholders, trust unitholders, superannuation members, financial advisors that receive information on products, investee entities and suppliers. Australian Ethical also identifies the environment and future generations as stakeholders.

Approaches to stakeholder engagement and response to concerns

Engagement with employees

Staff advocate

Australian Ethical elects a staff advocate every two years. The staff advocate's role is to allow the views of non-management employees to be heard at a senior management and board level. One of the key components of the staff advocate's position in 2006 has been consultation with employees regarding the design and features of the new Australian Ethical premises and reporting on the progress of the building. Gary Leckie remains the current staff advocate.

Employee satisfaction and surveying employees

Australian Ethical began conducting an annual staff satisfaction survey in 2005 and covers the core topics of job security, remuneration and benefits, work/life balance, training and development, internal communication structure, and Australian Ethical's social and environmental performance. Approximately 76 per cent of staff responded to both the 2005 and 2006 surveys.

Tables 5 and 6 show that the proportion of staff reporting that they were 'somewhat satisfied' or 'very satisfied' with their roles overall have remained at 81 per cent for 2005 and 2006. More staff were satisfied with Australian Ethical in 2006, at 76 per cent, than in 2005, at 66 per cent. Perceived levels of job security fell between 2005 and 2006 with 75 per cent of staff satisfied with their level of job security in 2005 and 67 per cent satisfied in 2006.

The percentage of staff 'very satisfied' or 'somewhat satisfied' with remuneration levels rose slightly from 32 per cent in 2005 to 40 per cent in 2006. This occurred with a reduction in staff satisfaction with benefits, falling from 66 per cent in 2005 to 44 per cent in 2006. These two measures show that currently less than half of all staff are satisfied with the remuneration and benefits offered at Australian Ethical, 38 per

cent of staff are neither satisfied nor dissatisfied with their remuneration and 47 per cent are neither satisfied or dissatisfied with the benefits offered.

The survey revealed that satisfaction with the work/life balance offered by the company has risen from 76 per cent in 2005 to 84 per cent in 2006. Although contentment with training rose slightly from 41 per cent in 2005 to 46 per cent in 2006, the 2006 survey revealed that less than half of all staff were satisfied with the training available. As with other indicators, staff members that were not satisfied with training were distributed across the ‘neutral’ (24 per cent) and ‘dissatisfied’ (24 per cent) responses. Levels of satisfaction with the internal communication culture shifted slightly from 63 per cent in 2005 to 62 per cent in 2006.

Australian Ethical’s employees were asked to indicate the degree to which the company complied with its Charter in order to gauge the perception of social performance among staff. Employees felt that the company’s compliance with tenet ‘h’ of the Charter, to ‘contribute to human happiness, dignity and education’, had fallen slightly in 2006.

Table 5 Employee satisfaction survey results for 2006

Measure ¹	Staff responses (Percentage of survey respondents)				
	Very dissatisfied	Somewhat dissatisfied	Neutral	Somewhat satisfied	Very satisfied
Current Role	0	8	11	51	30
Australian Ethical as an employer	0	3	22	49	27
Job security	0	5	24	35	32
Remuneration	8	14	38	32	8
Benefits	0	6	47	22	22
Work/life balance	3	0	11	22	62
Training	8	16	24	22	24
Internal communication	0	22	16	43	19
Social performance of Australian Ethical ²	6	11	25	31	25

¹ Some staff assessed questions as ‘non applicable’. Therefore not all measures equal 100 per cent.

² The measure for ‘social performance’ was taken from the staff survey questions asking if staff perceived Australian Ethical to be contributing to human happiness, dignity and education.

Table 6 Employee satisfaction survey results for 2005

Measure ¹	Staff responses (Percentage of survey respondents)				
	Very dissatisfied	Somewhat dissatisfied	Neutral	Somewhat satisfied	Very satisfied
Current Role	0	9	9	50	31
Australian Ethical as an employer	0	9	25	28	38
Job security	0	6	19	44	31
Remuneration	13	38	19	16	16
Benefits	3	3	25	41	25
Work/life balance	0	9	13	13	63
Training	3	13	34	28	13
Internal communication	6	9	22	41	22
Social performance of Australian Ethical ²	3	9	28	44	16

¹ Some staff assessed questions as 'non applicable'. Therefore not all measures equal 100 per cent.

² The measure for 'social performance' was taken from the staff survey questions asking if staff perceived Australian Ethical to be contributing to human happiness, dignity and education.

Sustainability committee

In 2002 Australian Ethical established a committee to address issues of sustainability within the company. The sustainability committee consists of seven individuals from various areas within the organisation (one member is also an executive director), who meet a regular basis. Committee members also draw on the expertise of other staff as necessary.

Committee members play an important part in the process of overseeing and implementing economic, environmental and social company policy. During 2005–06, members of the committee organised a number of sustainability initiatives, including:

- maintaining the recycling and compost bins for kitchen waste
- organising sustainable transport days
- establishing the sustainability library where staff have access to books and DVDs on a range of topics as well as contribute resources from their own collections
- providing free movie tickets for all staff to see *The Inconvenient Truth*

The committee may also put forward issues for the chief executive officer and board to consider.

Volunteering

Australian Ethical supports staff volunteering their time to organisations whose aims are consistent with the Charter. Under the volunteering policy, staff are able to undertake one day of volunteer work each year (or blocks of time equivalent to one day) with approved organisations. In addition, Australian Ethical is supportive of

staff engaging with identified stakeholders such as the community. In the last year staff have organised Lunch for Leukaemia, Sunnies for Sight Day, Hawaiian Shirt Day for ACT Eden Monaro Cancer Support Group and fundraising for men's health through the Movember initiative.

Engagement with shareholders

Australian Ethical engages with shareholders on a number of levels. Annual general meetings (AGMs) are held after hours to encourage attendance and a question section is included in the meeting notice sent out to shareholders. The company also welcomes letters to the company secretary, the investment committee, or the board to facilitate stakeholder communication.

Shareholders also have rights to put resolutions at general meetings which are set out in the Corporations Act 2001, Chapter 2G, Division 4 – Members' rights to put resolutions etc. at general meetings.

At the 2006 annual general meeting (AGM), the chair responded to key topics raised by stakeholders which included:

- governance
- internal capability, including the new premises
- our charter and investments
- marketing and growth
- dividend policy

Engagement with enquirers, trust unitholders, superannuation members

As a deep green fund manager, enquirers, unitholders and superannuation members concerns tend to focus on maintaining that stance. These include Australian Ethical's stance on issues such as uranium mining, water, energy, food production, information technology, alternative business structures and animal testing. Australian Ethical remains committed to applying the Australian Ethical Charter to all investments within its funds.

In July–August 2006 Australian Ethical conducted a survey on animal testing which involved a stratified random sample of managed fund investors, super investors, and fund and super inquirers and also a census of people who had expressed an interest in participating after reading an article on animal testing in our Aim High newsletter. The results of this survey were considered by the investment committee in March 2007.

Australian Ethical also organises a series of free seminars hosted by executive director James Thier, in Australia and New Zealand. In 2006 there were 28 road

shows. These seminars provide an opportunity for stakeholders, unitholders and superannuation members to ask questions.

The website also has a contact telephone number and on-line enquiry form for use by all stakeholders wishing to ask questions or make suggestions.

Engagement with broader stakeholders

Australian Ethical also directly engages broader stakeholders including community, the environment and future generations by:

- Day to day business of implementing the Australian Ethical Charter in investment decisions
- Submission to the ACT Climate Change Strategy and Energy Policy review
- Striving for workplace sustainability through the re-fit of the new premises
- Making donations of 10 per cent of company profit through the community grants program.

Management approach and performance indicators

Economic performance indicators

The 2005–06 financial year was an exceptional year for Australian Ethical, with stronger than anticipated growth in funds under management resulting in a substantial increase in revenue and profits. This section of the company sustainability report covers Australian Ethical’s economic performance for the year ending 30 June 2006.

Economic performance

Funds under management (FUM) grew from \$311 million at 30 June 2005 (after distribution to investors) to \$417 million at 30 June 2006 (after distribution) (Figure 1). The distribution amount for the 2006 year was \$41 million, compared to a distribution the previous year of \$48 million. Funds under management increased in all the investment unit trusts and each of the superannuation strategies (Figures 2, 3 and 4). This growth in funds under management translates into more money being invested according to the ethical principles outlined in the Australian Ethical Charter.

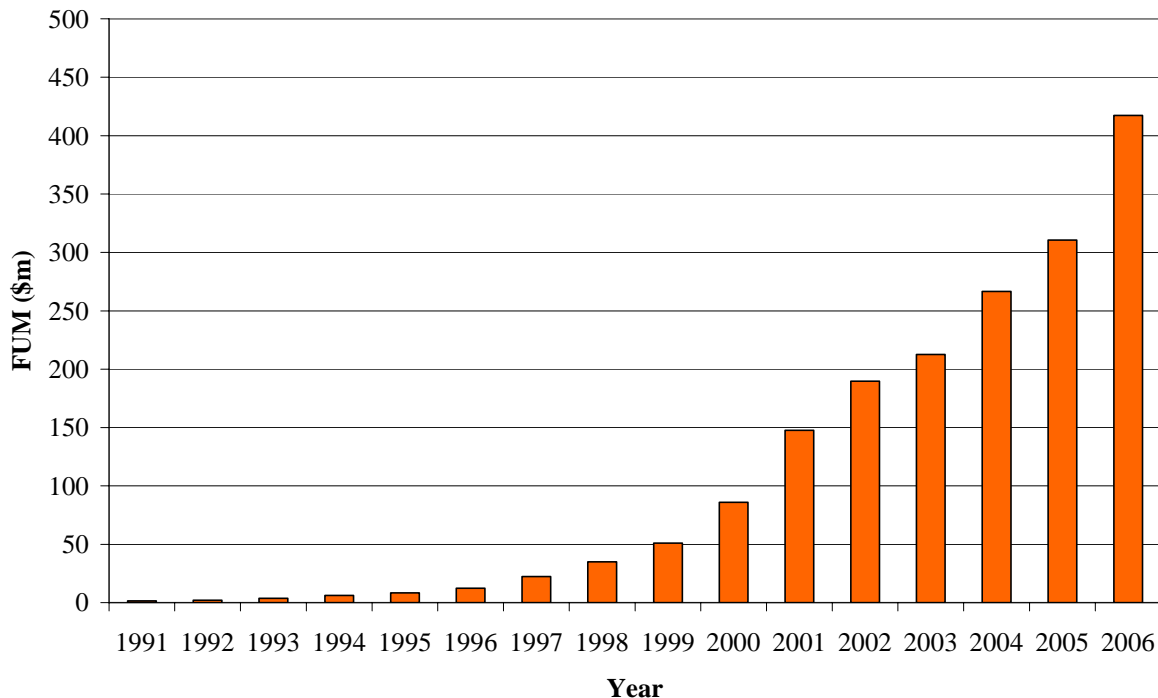


Figure 1: **Growth of funds under management (years ending 30 June) – figures are net of crossholdings**

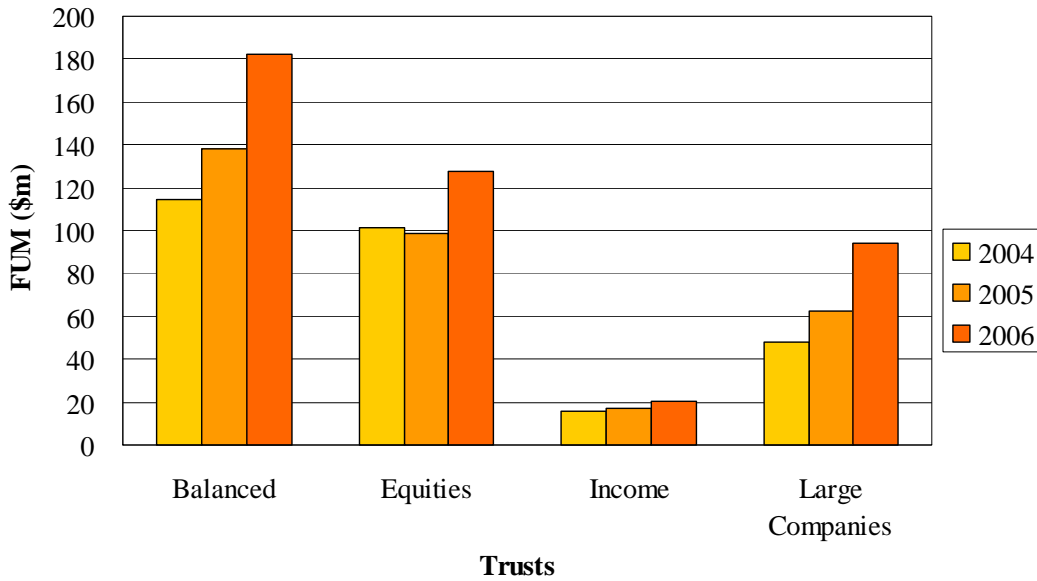


Figure 2: **Unit trusts – funds under management as at 30 June 2004, 2005 and 2006 – figures include crossholdings**

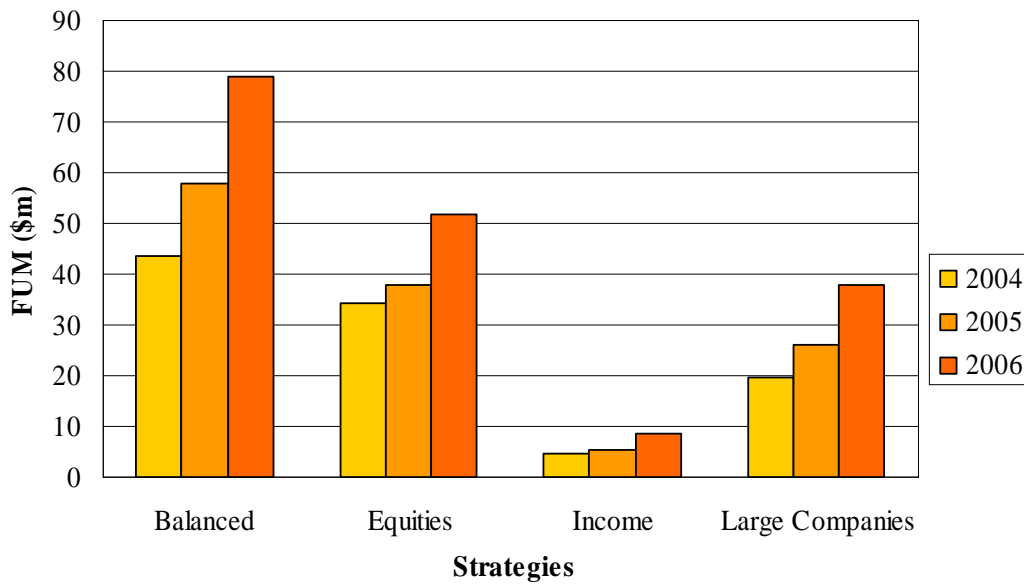


Figure 3: **Superannuation accumulation and rollover strategies – funds under management as at 30 June 2004, 2005 and 2006¹**

¹ Figure does not include cash allocated to the strategies that is yet to be used to purchase units.

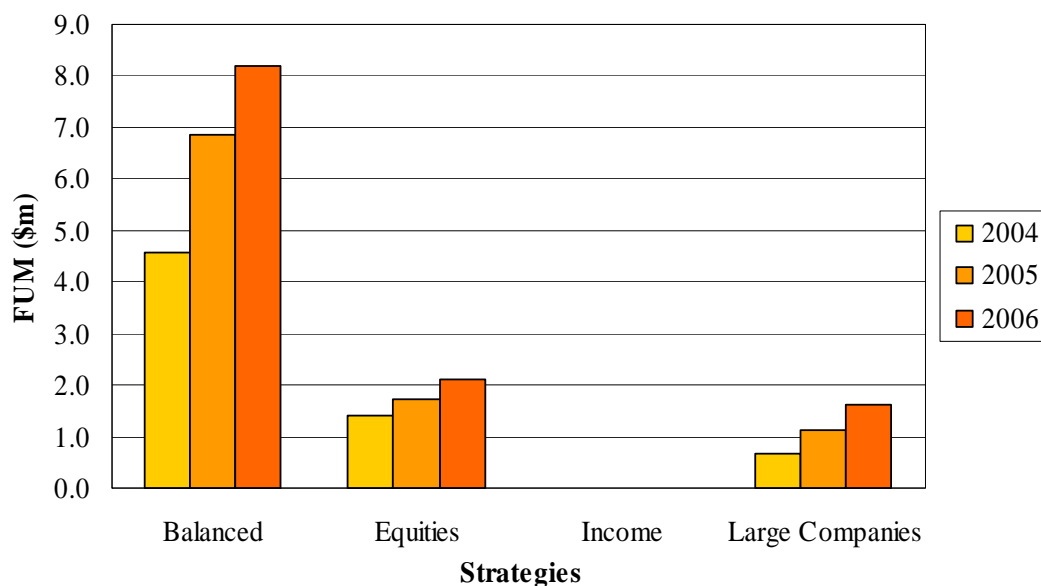


Figure 4: **Superannuation pension strategies – funds under management as at 30 June 2004, 2005 and 2006^{1,2}**

¹ Figure does not include cash allocated to the strategies that is yet to be used to purchase units.

² Figure does not include years where strategies held less than \$0.5 million.

Revenue for the year to 30 June 2006 was \$9 661 723, up 30 per cent on the previous reporting period (Table 7). Of this, \$9 240 671 (96 per cent) was derived from managing ethical investments (with high environmental and social benefits). Net profit after tax for the year was \$1 362 612. This was 74 per cent higher than for the year ended 30 June 2005. Dividends paid to shareholders rose by 12 per cent to \$705 750. The company's retained earnings increased by 266 per cent to \$656 862 (Table 8). In the same period the company's net assets increased from \$5 046 886 (2005) to \$6 273 783 (2006), which is an increase of \$1 226 897 (Table 8).

Table 7: **Economic performance indicators for the financial years 2003–04, 2004–05 and 2005–06**

Economic performance indicator	Financial year		
	2003–04	2004–05	2005–06
Revenues	\$5 892 861	\$7 422 277	\$9 661 723
Operating Costs	\$2 366 075	\$2 879 593	\$3 516 920
Employee benefits ¹	\$2 721 309	\$3 186 271	\$3 827 029
Net profit after tax	\$459 761	\$784 419	\$1 362 612
Dividends paid during the year	\$278 069	\$631 589	\$705 750
Income tax	\$199 523	\$353 865	\$625 599
Payroll tax	\$87 931	\$119 902	\$159 432
Total Tax	\$287 454	\$473 767	\$785 030

¹ Excludes payroll tax.

Table 8: **Economic performance indicators as at 30 June 2004, 2005 and 2006**

Economic performance indicator	Balance date		
	30.06.2004	30.06.2005	30.06.2006
Increase in retained earnings	\$181 692	\$179 311	\$656 862
Total assets	\$5 591 003	\$6 533 613	\$8 279 224
Net assets	\$4 541 716	\$5 046 886	\$6 273 783

Australian Ethical's community grants

Australian Ethical is proud to donate 10 per cent of its profit each year as prescribed by its constitution and in this way actively support local and international communities. In 2005 the donated total was \$98 227 to 44 organisations (Appendix A). In 2006 this amount increased to \$170 132 which was distributed among 50 community groups (Appendix B). Since 1997 Australian Ethical has made available grants worth over \$420 000.

Further information on the community grants, including application forms, can be found on the website www.austethical.com.au.

Financial implications of climate change

Due to the nature of Australian Ethical's business, the company has been conscious of considering environmental issues in day to day operations. Such environmental issues include climate change. The company sees focus on the environment and climate change as providing Australian Ethical with further opportunities and competitive advantage in the funds management industry. Investment with the company translates to an investor's decision to work with Australian Ethical to help solve or alleviate environmental and social problems. Clearer indication that climate change is happening will increase the awareness of the issue and hence broaden the potential number of investors with Australian Ethical.

While the company is aware of the risks and opportunities climate change presents, the company has not quantified the financial implications of climate change for the organisation.

Superannuation obligations

With respect to Australian Ethical employees, the retirement plans offered by the company are accumulation superannuation strategies that are based on the requirements outlined by the government. There are no defined benefit plans offered by Australian Ethical. As mandated, the company pays nine per cent of every salary to the accumulation superannuation strategy of the employee's choice. All of the employees of the company participate in the superannuation scheme.

Financial assistance from government

At present Australian Ethical does not receive any direct financial benefits from the government, nor is the government represented in Australian Ethical's shareholding. Changes in government legislation pertaining to superannuation could result in favourable business developments for Australian Ethical. The impact of any legislative changes would depend on the nature of the legislative change and Australian Ethical's market share at the time of the change.

Market presence

Suppliers

The Australian Ethical Charter requires that the company support the production of high quality products as well as supporting locally based ventures. Both of these tenets are adhered to in the purchasing and sourcing of goods undertaken by Australian Ethical locally.

As a small to medium sized enterprise with 48 employees, Australian Ethical requires a moderate amount of stationery, cleaning, staff amenities and corporate office supplies. The company head office is based in Canberra and is considered its location of significant operation.

During the year the company sourced most of its supplies locally, generating and supporting business in the ACT region. The company's three main suppliers have offices close to Australian Ethical's operations.

The company also has a policy that allows the company to pay a 20 per cent premium for environmentally exemplary goods and, where possible, these are also sourced locally.

Hiring

Australian Ethical's procedures for hiring locally and the proportion of senior management hired from the local community at locations of significant operation is outlined below.

Australian Ethical's hiring procedure directs the company to source employees from the local area in the first instance. The Canberra employment market is accessed through the Canberra Times and local agencies to Canberra as a first step. The company also utilises an environmental jobs network and a disability work group when recruiting new employees. All senior management positions are approached in the same fashion.

New employees are taken through an induction process that outlines policies and procedures that need to be adhered to with regard to environmental and social issues

when employed by Australian Ethical. Australian Ethical employees are also required to adhere to the comprehensive code of conduct outlined elsewhere in this report.

Indirect economic impacts

Every year Australian Ethical undertakes free seminars and public presentations on ethical investment. These initiatives provide public benefit to the community through the commercial, in-kind and pro bono engagement that they entail. In some cases, seminars and presentations have led to the development of local initiatives with which Australian Ethical became involved.

The Daylesford Wind Turbine Project, for example, started out as a discussion at one of the seminars held in the 2005–06 financial year. This is an initiative that saw the community try to fund wind energy production. The community has since gotten the turbine project up and running. Australian Ethical was involved and made suggestions at all stages from inception to the development of the idea to an initiative. This initiative has since received a \$975 000 grant from the Victorian government.

This paragraph incorrectly overstates Australian Ethical's involvement in the project and we apologise unreservedly for any offence caused.

There were approximately 28 presentations at road shows and exhibitions in the 2005–06 financial year. In addition to this Australian Ethical is one of only a few companies to run education programs in regional areas. Of the 28 presentations given, 14 were undertaken in regional areas.

16th December 2008

Australian Ethical also provides articles to magazines and journals which are about ethical investment that generally heighten awareness about the issues surrounding ethical investment.

Throughout 2005–06 Australian Ethical also put out media releases for most environmental days such as World Wetlands Day and the International Day of Drought and Desertification. These media releases link in with ethical investment and offer personal ways of addressing some of the current environmental problems.

Another indirect economic impact for the 2005–06 financial year included Australian Ethical's provision of sponsorships to not-for-profit and benevolent groups which directly assisted their activities. During this same period the groups sponsored included: Non-Conventional Homes Eco-Tour; Dolly Putin; WA Conservation Week; ANU Fenner Conference on the Environment and Urbanisation; the Chrysalis Insight 3rd Place website; the Garden of Eden Project Composting Rotaloo; and the Aldinga Eco-Village newsletter.

Environmental performance indicators

As an office based business, consumption of materials, energy, water and paper, and also waste and transport choices all leave very visible reminders of our work-life footprint. There is no escaping consumption of some kind, however, thinking smarter as to how we consume will create positive changes at our local level. Australian Ethical's research undertaken with stakeholders shows that many are concerned about how future generations will pay for the consumption of this generation and previous ones. The consumption of finite resources will have profound legacy issues for society and are business risks if left unaddressed.

Choosing clean energy

In our business of providing financial products and superannuation services, we seek to reduce long term business risks by investing in products which support societal and environmental goals such as renewable energy as opposed to coal or uranium. On this matter of choosing the kinds of energy we use, Dr Tim Flannery on national radio in conversation with Professor Ian Lowe, explains an overall scenario:

'Well your prompt sends me back to the 18th century into the world that William Wilberforce lived in, the great abolitionist of slavery, where in Britain every banker and every shipper was making a fortune out of slavery. They knew it was a horrendous institution, and then parliament was corrupt, put an act on the issue: slave owners weren't releasing their slaves. The situation's a bit like Australia with coal; it seemed hopeless. Who would act? And yet through power of the moral persuasion that the abolitionists brought to bear on the issue, we don't have slaves in the world today, at least in the Western world: an enormous landmark victory for us. And that's the sort of thing that we have to actually realise today. This is a profound moral question and the same issue that was surrounding slavery, it is wrong to degrade the lives of some individuals to enrich others. And in our position today, it is wrong to degrade our children's future to enrich ourselves. It's the same moral equation and we have to bring to force the same moral power to bring an end to an iniquitous trade.' (Flannery 2006)

On the issue of the imperative to choose less carbon intensive energy sources to prevent further rising in the earth's atmospheric temperature, Australian Ethical does not advocate nuclear power as the solution to global warming, and does not invest in companies involved in mining of uranium or operating nuclear facilities. This opposition to the nuclear fuel cycle has been part of Australian Ethical's stance since inception. Uranium mining creates risks that are unlike any other mining practice, including radiation exposure for workers, the production of harmful waste which has a radioactive life for thousands of years, and potential use in nuclear weapons.

As the December 2005 edition of Australian Ethical's newsletter, Aim High, states '... an increase in the production of uranium to feed a proliferation of new nuclear power stations around the world will inevitably lead to an increase in the availability of material that can be used in nuclear weapons. The bombs may be made not just by our allies, but by repressive regimes and non-government organisations with little interest in ethics.'

If nuclear energy is not viable because it is dirty, unsafe and expensive, then Australian Ethical leads by example as to what ways will ensure reduction in key climate impacts on the environment, society and future generations. Some have argued that our actions are insignificant when compared to others, it is China and India that are the 'problem'. Continuing the example of energy consumption, in a speech to the National Press Club in October 2006, David Suzuki related a similar perception in Canada. He said:

'Canada's two percent of the [global greenhouse gas] emissions. We say well Canada's insignificant. Wait a minute now, it's true, but there - you know even the United States, the biggest polluter only puts out twenty-five percent. We all add up to a major effect. Let me just diverge here. China in the next fifteen years, is going to build two hundred cities from scratch for a million people or more each. China has asked architects around the world to submit proposals of blueprints for how to build those cities. Friend of mine in Vancouver, Bing Tom, Chinese, very eminent Architect submitted a plan for a city of a million people that would be off the grid for energy, for waste, and water. That is all of the water, waste and energy they needed would be created or taken care of in the city. Pretty radical idea. He submitted the plan to the Chinese Government. Their only question was where's this being done in North America? And he said nowhere. This is cutting edge. They said why should we do something North Americans aren't willing to do. And that's why Kyoto and Mr Howard are important. If Mr Howard can't meet a soft target and says no we can't afford it we're not going to do - why should China pay any attention to this? The industrialised countries that created the problem - why should we now go on a different path because you can't handle it and we've got to take up the slack. So it's true, Australia's emissions are very small but from symbolically it is a very, very crucial thing for Australia to ratify and meet that because otherwise we don't have any credibility with the developing world and if China continues the way it's going, I guarantee you they'll take the rest of us down with them.'

(Suzuki 2006)

Taking a leadership role that we 'can do' ourselves, Australian Ethical acts on its conservation responsibilities. We use the Ethical Charter in our financial products

and services and apply the Charter to our own business operations, to ameliorate wasteful or polluting practices (tenet 'e' of the Charter). Australian Ethical is a company with nearly 50 staff and our direct environmental impact concern consumption of paper and stationery, energy and water use, transport, waste, and greenhouse gas emissions.

Reducing resource consumption

Australian Ethical purchasing policy

- Australian Ethical will consider ethical issues in deciding what to buy;
- Australian Ethical will follow the 4 R's – Reduce, Reuse, Recycle and Refuse – in considering whether to make purchases;
- In general, Australian Ethical is prepared to pay up to a 20 per cent premium for a more sustainable product and will consider a higher premium for an exemplary product; and
- We will consider alternatives to travel, especially air travel, before business travel is undertaken (e.g. phone conferences).

Eco-efficient practices

Australian Ethical has implemented a number of eco-efficient practices into its business operations in order to reduce the amount of resources consumed. These include:

- double sided printing as default option on all computers;
- use of Evolve 100 per cent post-consumer recycled printer and photocopy paper (www.evolve-papers.com);
- paper reuse trays on desks;
- paper and cardboard recycling facilities;
- purchasing office stationery made from recycled materials where possible;
- recycling of printer toner cartridges;
- printing of Aim High and product disclosure statements on 100 per cent recycled, uncoated chlorine-free paper using vegetable-based inks. The company and trust annual reports are printed on the same paper except that it is coated (calcium carbonate);
- use of paper pens for outreach made using 100 per cent recycled paper tubes;
- electronic copies of the product disclosure statements available on the Australian Ethical website www.austethical.com.au;
- recycling facility in kitchen for glass, plastic and aluminium;
- compost bin in kitchen for organic matter and organic matter compost facility outside; and
- the purchase of Green Power electricity and the offsetting of travel related greenhouse gas emissions via Greenfleet.

Materials

Paper

By virtue of its core business, Australian Ethical uses substantial amounts of paper. For the year ended 30 June 2006, Australian Ethical used approximately 1.56 million A4 sheets of 100 per cent recycled paper (equivalent to 125 trees using non-recycled paper; see Table 9). Unit trust and superannuation product disclosure statements (PDS) made up approximately 24.5 per cent (381 785 A4 sheets) of the paper used; office printing and photocopying paper, 20.6 per cent (321,507 A4 sheets); newsletters, 19.5 per cent (304 000 A4 sheets); leaflets, 14.3 per cent (223 743 A4 sheets); and annual trust reports, 8.9 per cent (138 000 A4 sheets). Letterhead paper, super annual reports, super fund statements, half-yearly trust reports, annual reports to shareholders, compliment slips, and other general print-runs (for example seminar flyers) made up the remainder of Australian Ethical's 2005–06 paper use (Table 9).

Table 9: Paper usage for the financial years 2003–04, 2004–05 and 2005–06¹

Paper usage	Financial year		
	2003–04	2004–05	2005–06
A4 sheets			
Unit trust PDS	407 940	120 295	152 955
Superannuation PDS	418 552	276 468	228 830
Newsletters	460 000	290 000	304 000
Leaflets	83 900	0	223 743
Annual report to shareholders	12 000	8 800	12 600
Trust annual report	130 000	175 500	138 000
Half yearly trust report	38 400	13 500	19 500
Printer and photocopier paper	287 565	265 941	321 507
Letterhead paper	26 515	86 667	46 000
Compliment slips (A4 equivalent)	923	4 072	3 817
Super fund statements (mail house)	14 509	24 003	26 676
Super annual report	13 480	16 002	30 000
Other	11 867	5 374	52 547
Total A4 sheets	1 905 651	1 286 622	1 560 175

¹ Paper usage data excludes paper envelopes.

Paper use in 2005–06 increased by 273 553 A4 sheets (21 per cent) compared to 2004–05. The largest increases occurred in leaflets (up 223 743 A4 sheets) and printer and photocopy paper (up 55 566 A4 sheets). The biggest falls were recorded in the superannuation PDS (down 47 638 A4 sheets) and letterhead paper (down 40 667 A4 sheets).

Printer and photocopier paper usage per average full-time equivalent staff member (based in the Canberra office) rose from 8 155 A4 sheets in 2004–05 to 8 879 A4

sheets in 2005–06, an increase of nine per cent. This followed a 14 per cent decrease between 2003–04 and 2004–05 (Table 10).

Table 10: Printer and photocopier paper usage per average full-time equivalent staff member for the financial years 2003–04, 2004–05 and 2005–06¹

Printer and photocopier paper	Financial year		
	2003–04	2004–05	2005–06
A4 sheets			
Printer and photocopier paper	287 565	265 941	321 507
A4 sheets/average FTE staff ¹	9 453	8 155	8 879

¹ Average full-time equivalent (FTE) staff based in Canberra office.

Increasing interest in Australian Ethical’s products makes reducing our paper use a challenge. As the number of Australian Ethical investors and superannuation members continue to grow, paper use could also be expected to grow. Offsetting this trend is Australian Ethical’s increased use of technology to deliver information about our products. For example, potential investors can access the product disclosure statements via the Australian Ethical website and much of the information previously mailed to investors can now be sent by e-mail (where e-mail has been supplied and consent given). As technology improves, Australian Ethical hopes to provide more information to its stakeholders via electronic means, restricting and reducing our paper use.

Stationery

Stationery use, as represented by total dollar costs, increased by \$146 or three per cent in the 2005–06 financial year. Cost per average full-time equivalent staff member declined by \$12 or seven per cent (Table 11). The reduction in stationery cost per staff member is again an excellent result largely due to the efforts of Australian Ethical’s office administrator, Donna Cameron.

Table 11: Stationery costs for the financial years 2003–04, 2004–05 and 2005–06

Stationery costs	Financial year		
	2003–04	2004–05	2005–06
Total cost	\$6 161	\$5 295	\$5 441
Cost/average FTE staff ¹	\$203	\$162	\$150

¹ Average full-time equivalent (FTE) staff based in Canberra office.

Energy

Electricity

Electricity and gas are supplied to Downer Business Park tenants through communal/shared meters. In order to estimate Australian Ethical’s usage, occupancy-

rate weighted estimates of electricity and gas usage per square metre for the centre (net of corridors) were calculated, and multiplied by the square metres occupied by Australian Ethical (net of corridors). It should be emphasised that these calculations are estimates only, as Australian Ethical's gas and electricity usage is influenced by the amount of gas and electricity used by other businesses within the centre.

During 2005–06, Australian Ethical used an estimated 79 644 kWh of electricity compared to 68 183 kWh in 2004–05, an increase of 17 per cent (Table 12). Some of the increase may be explained by higher staff numbers (7 per cent increase from 44 to 47); however, much of the increase appears to be due to an increase in energy intensity. To neutralise the impact of this electricity, Australian Ethical purchased 79 644 kWh of Green Power from ActewAGL (sourced from mini-hydro, biomass and wind).

Table 12: Electricity usage for the financial years 2003–04, 2004–05 and 2005–06

Electricity used	Financial year		
	2003–04	2004–05	2005–06
kWh/sqm ¹	133	116	124
Total Australian Ethical kWh ²	74 515	68 183	79 644

¹ Canberra Business Centre electricity usage.

² Kilowatt-hours (kWh) used by Australian Ethical based on floor space occupied.

Gas

Gas usage increased by 96 percent in 2005–06 to 382 393 MJ (Table 13). The majority of the increase can be explained by lower than usual gas usage in the previous year (due to warmer temperatures), and the operation of the business centre's main gas boiler throughout summer and early autumn of 2005–06. The main gas boiler (used for heating) had been turned off in previous years; however, due to a change in centre management this did not occur during the 2005–06 year. It is expected that gas usage will decrease for the 2006-07 year.

Table 13: Gas usage for the financial years 2003–04, 2004–05 and 2005–06

Gas used	Financial year		
	2003–04	2004–05	2005–06
MJ/sqm ¹	447	335	593
Total Australian Ethical MJ ²	251 252	195 005	382 393

¹ Canberra Business Centre gas usage.

² Mega joules (MJ) used by Australian Ethical based on floor space occupied.

Total energy

Australian Ethical's total energy consumption (gas and electricity) for 2005–06 was 669 113 MJ, a 52 per cent increase on the previous year. While this was still two per

cent below the target benchmark used by the Commonwealth Government for energy consumption in its properties, it was 40 per cent higher than the more rigorous Property Council of Australia's best practice benchmark for existing office buildings and 97 per cent higher than the best practice benchmark for new buildings (Table 14).

Table 14: Energy usage for the financial years 2003–04, 2004–05 and 2005–06

Energy used	Financial year		
	2003–04	2004–05	2005–06
Total energy MJ ¹	519 508	440 466	669 113
Commonwealth benchmark MJ ²	585 050	621 590	684 370
Best practice existing building MJ ³	417 566	439 113	478 864
New building design target MJ ³	296 174	311 457	339 652
MJ/average FTE staff ⁴	17 078	13 507	18 479
Space per person (sqm) ⁵	18.5	18.1	17.8
MJ/space per person	28 135	24 305	37 590
Change in MJ/space per person	13%	-14%	55%

¹ Sum of total gas and electricity usage, where 1 kWh = 3.6 MJ.

² Target benchmark for total annual energy consumption in Commonwealth Government properties, calculated as follows: Energy target (MJ per annum) = 500A+10 000N, where A is the net floor area in m² and N is the number of staff.

³ Benchmarks calculated using Property Council of Australia Energy Guidelines for Office Buildings (2001), using net lettable area (NLA) and including tenant energy use.

⁴ Average full-time equivalent staff based in Canberra office.

⁵ Space per person = time weighted average office space (sqm)/average full-time equivalent staff based in Canberra office.

The Property Council of Australia's best practice benchmark for new buildings will become more relevant for Australian Ethical when it moves into its planned purpose built office in March 2007. The planned office space has been designed to factor in sustainability principles like the reduction of energy consumption by the building. It will also have its own metering system which will enable accurate measurement of electricity and gas usage over time.

Energy usage (MJ)/space per person (which takes account of changes in staff and spacing levels over time) increased by 55 per cent between 2004–05 and 2005–06 (Table 14). While some of this increase is due to factors outside Australian Ethical's control (for example the gas boiler remaining on throughout summer and autumn), the large increase is disappointing all the same.

Water

Water is supplied to Australian Ethical's Canberra office through a single shared meter. This makes calculation of Australian Ethical's total water use difficult. An estimate of Australian Ethical's water use has been made similar to the calculation

methodology used for electricity consumption. Based on these estimates, Australian Ethical's water usage was 263 kL in 2005–06, a 30 per cent decrease on the 374 kL used in 2004–05 (Table 15). While the decrease is a positive, it follows on from a year where water usage was particularly high, due to a number of major leaks in the business centre.

Table 15: Water usage for the financial years 2003–04, 2004–05 and 2005–06

Water used	Financial year		
	2003–04	2004–05	2005–06
kL/sqm	0.40	0.63	0.41
Total kL	227	374	263
Change in Total kL	-36%	65%	-30%
Median water consumption benchmark (kL) ¹	404	426	464
Best practice water consumption benchmark (kL) ²	197	207	226
kL/average FTE staff ³	7.4	11.5	7.2

¹ Calculated benchmark based on a median Canberra office water consumption of 0.72 kL/net lettable area (NLA) sqm.

² Calculated benchmark based on best practice Canberra office water consumption of 0.35 kL/net lettable area (NLA) sqm.

³ Average full-time equivalent staff based in Canberra office.

In October 2006 the Department of the Environment and Heritage published a report titled *Water Efficiency Guide: Office and Public Buildings*. The report summarises findings of a study undertaken by Exergy Australia Pty Ltd on behalf of the Department and contains national water intensity benchmarks for office buildings and public buildings. The study found that the median water consumption intensity for Canberra offices was 0.72 kL/sqm per annum. The best practice benchmark for Canberra offices was determined to be 0.35 kL/sqm per annum. During 2005–06, Australian Ethical's water consumption was approximately 43 per cent less than the median Canberra office benchmark, but 16 per cent higher than the best practice benchmark (Table 15).

Part of the reason for the better than (median) benchmark performance may be due to the fact that current office space is in a two storey building with no cooling towers. The benchmark was based on data from 132 office buildings of which 109 had some form of water cooled chiller. Cooling towers are estimated to comprise approximately 31 per cent of a commercial office buildings water use (Department of the Environment and Heritage 2006).

Transport

During 2005–06, 63 per cent of Australian Ethical staff travelled to work by car: 44 per cent travelling alone and 19 per cent car pooling (Figure 5). The remaining

staff used a variety of transport methods, including motorcycle, train, bus, bicycle, and walking. Ten per cent of staff worked from home (Figure 5).

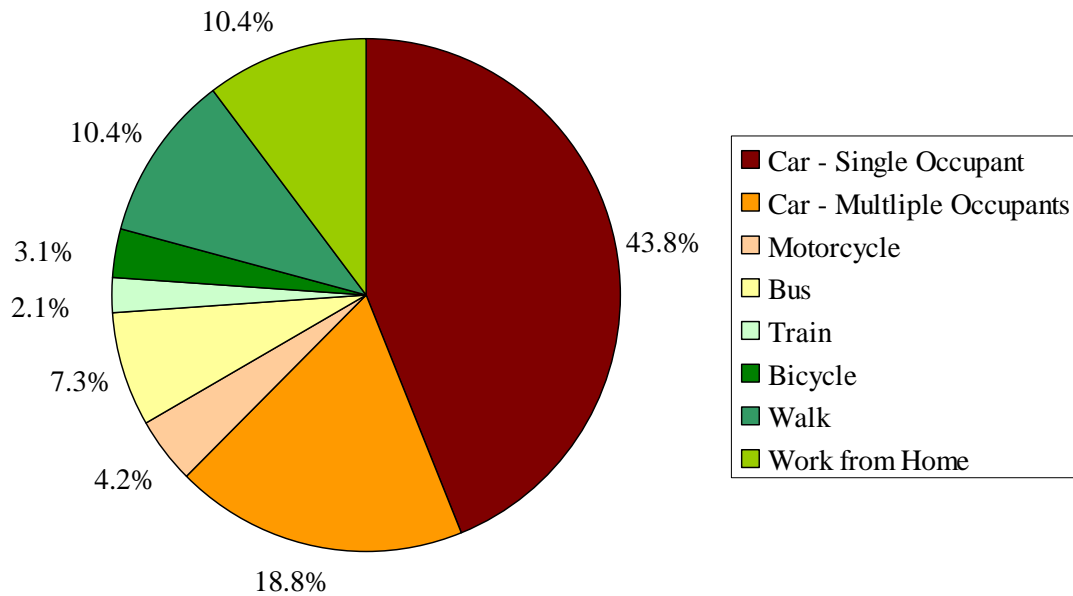


Figure 5: **Primary transport used by Australian Ethical staff to commute to work in the year to 30 June 2006**

Australian Ethical staff undertook 316 flights and 275 taxi cab trips during the 2005-2006 financial year. Conscious of the greenhouse gas emissions generated by this travel, the company offset the emissions using Greenfleet.

In relation to initiatives undertaken to reduce indirect energy consumption Australian Ethical seeks to promote and regularly hold alternative transport days. These days are held to encourage Australian Ethical staff to ride, walk or take alternative transport to the office on that day. In addition to this, where possible Australian Ethical partakes in teleconferences and or substitutes phone conferences for face to face meetings that may involve travel.

Emissions, effluent and waste

Waste

It is estimated that Australian Ethical produced 3408 kg of waste in the 2005–06 financial year, compared to the 3823 kg of waste generated during the 2004–05

financial year, a decrease of 11 per cent (Tables 16 and 17). Approximately 2761 kg (81 per cent) of the 3408 kg of waste was recycled, while 647 kg (19 per cent) went to landfill. The majority of waste was paper, making up approximately 58 per cent of Australian Ethical's total waste.

The data was collected by conducting waste audits at Australian Ethical's Canberra offices over two one-week periods in June 2006. Australian Ethical employees were unaware that the audits were happening. This ensured that audit results represented normal waste practices in every day operations. Waste was sorted into five categories: paper; cardboard; recyclable containers; food organics and general waste. The waste was firstly segregated and then weighed.

The decrease in total waste between 2004–05 and 2005–06 is positive, and indicates that the strategies implemented to improve recycling and reduce waste going to landfill are having an effect. The biggest falls were recorded in food organics going to landfill (down 71 per cent to 130 kg) and cardboard to landfill (down 65 per cent to 9 kg). Offsetting these decreases; however, was a 98 per cent increase in general waste going to landfill (413 kg).

Table 16: Waste for the year to 30 June 2006

Waste type	Weekly waste 2005–06 waste		% of waste sub-total	% of total waste
	(kg)	(kg)		
Waste to landfill				
Paper	0.8	43	7	1
Cardboard	0.2	9	1	0
Recyclable containers ¹	1.0	52	8	2
Food organics	2.5	130	20	4
General waste ²	7.9	413	64	12
Sub-total	12.4	647	100	19
Waste recycled				
Paper	38.1	1979	72	58
Cardboard	3.3	171	6	5
Recyclable containers ¹	3.8	195	7	6
Food organics	8.0	416	15	12
Sub-total	53.1	2761	100	81
Waste generation total³	65.6	3408		100

¹ Includes glass, plastic and aluminium.

² Includes plastic wrappers/bags, tissues, paper hand towel etc.

³ Australian Ethical's Canberra offices only.

Table 17: Waste for the year to 30 June 2005

Waste type	Weekly waste (kg)	2004–05 waste (kg)	% of waste sub-total	% of total waste
Waste to landfill				
Paper	1.0	52	7	1
Cardboard	0.5	26	3	1
Recyclable containers ¹	1.0	52	7	1
Food organics	8.5	442	57	12
General waste ²	4.0	208	26	5
Sub-total	15.0	780	100	20
Waste recycled				
Paper	38.4	1999	66	52
Cardboard	3.3	173	6	5
Recyclable containers ¹	4.3	221	7	6
Food organics	12.5	650	21	17
Sub-total	58.5	3043	100	80
Waste generation total³	73.5	3823		100

¹ Includes glass, plastic and aluminium.

² Includes plastic wrappers/bags, tissues, paper hand towels etc.

³ Australian Ethical's Canberra offices only.

Greenhouse gas emissions

During 2005–06 Australian Ethical saved the equivalent of 86.35 tonnes of carbon dioxide from entering the atmosphere, and offset a further 100.05 tonnes (Table 18). Australian Ethical saved 80.60 tonnes of carbon dioxide by purchasing 79 644 kWh of Green Power electricity from ActewAGL under the GreenChoice program.¹ The company also saved a further 5.75 tonnes of carbon dioxide by recycling 81 per cent (2.761 tonnes) of the waste that it generated in the period covered by this report.

The company offset 100.05 tonnes of carbon dioxide (from natural gas, waste to landfill, flights and taxi cab trips) through the purchase of 374 native trees from Greenfleet (www.greenfleet.com.au).

Prior to its greenhouse gas emissions being off-set, Australian Ethical generated 41 per cent more emissions in 2005–06, compared to 2004–05 (Tables 18 and 19). The increase in emissions was largely due to a significant increase in gas usage at the business centre and an increase in the number and distance of air flights.

¹ Green Power is generated from renewable sources such as mini-hydro, biomass and wind.

Table 18: Greenhouse gas (GHG) emissions for the year to 30 June 2006¹

GHG emissions (t CO2-e)	Saved	Generated	Offset	Net
Electricity	80.60	0.00	0.00	0.00
Gas	0.00	27.26	27.26	0.00
Waste recycled	5.75	0.00	0.00	0.00
Waste to landfill	0.00	0.62	0.62	0.00
Air flights	0.00	71.17	71.17	0.00
Taxi cabs	0.00	1.00	1.00	0.00
Total	86.35	100.05	100.05	0.00

¹ Greenhouse gas emissions from gas and waste were calculated using the Australian Greenhouse Office Factors and Methods Workbook, December 2006. Emissions from air flights and taxi cabs were calculated using Greenfleet's online calculator (www.greenfleet.com.au). Emissions saved by using Green Power electricity were sourced from invoices and calculated by ActewAGL.

Table 19: Greenhouse gas (GHG) emissions for the year to 30 June 2005¹

GHG emissions (t CO2-e)	Saved	Generated	Offset	Net
Electricity	71.87	0.00	0.00	0.00
Gas	0.00	13.90	13.90	0.00
Waste recycled	7.06	0.00	0.00	0.00
Waste to landfill	0.00	1.13	1.13	0.00
Air flights	0.00	55.30	55.30	0.00
Taxi cabs	0.00	0.58	0.58	0.00
Total	78.93	70.91	70.91	0.00

¹ Greenhouse gas emissions from gas and waste were calculated using the Australian Greenhouse Office Factors and Methods Workbook, December 2004. Emissions from air flights and taxi cabs were calculated using Greenfleet's online calculator (www.greenfleet.com.au). Emissions saved by using Green Power electricity were sourced from invoices and calculated by ActewAGL.

Products and services

Australian Ethical provides financial products and services which earn a competitive return for chosen risk whilst at the same time contributing to a just and sustainable human society and the protection of the natural environment.

Overall Australian Ethical uses the Charter to inform decisions on financial products and services. Australian Ethical invests in approximately 120 individual investments in the four unit trusts. Investments cover large and small enterprises, long and short terms, as well as the asset classes of interest-bearing securities, equities (shares) and property. They include variety of renewable energy sources, recycling, permaculture, eco-tourism, pollution reduction, health care and education.

Australian Ethical regularly engages with companies on ethical issues including potential environmental impacts. In 2005–06, Australian Ethical engaged with

companies on issues including timber sourcing, biodiversity, palm oil, military involvement and animal testing.

Compliance

Australian Ethical Investment was not subject to any significant fines or non-monetary sanctions for non-compliance with environmental laws and regulations in 2005–06.

Environmental protection expenditure

Australian Ethical spent a total of \$9659 on environmental protection for the 2005–06 financial year. This included:

- the cost of off-setting greenhouse gas emissions through Greenfleet – the company paid \$879 to plant 374 trees offsetting 100.05 tonnes of carbon dioxide;
- paying a premium for power generated from renewable energy sources – the company paid \$4380 to purchase 79 644 kWh of Green Power from ActewAGL; and
- Sustainability committee initiatives – the company spent approximately \$4400 on initiatives including alternative transport events, biodegradable products, plants for the office, a compost bin and books for the sustainability library. The sustainability committee also commissioned the Centre for Australian Ethical Research (CAER) to produce a submission for the ACT Government’s review of its climate and energy strategy.

Labour practices and decent work performance indicators

The Charter directs Australian Ethical to seek out investment opportunities that develop the participation of workers in the ownership and control of their work places and to seek out investments that contribute to human happiness, dignity and education. Australian Ethical also seeks to apply these principles in its own workplaces and the following section reports on the company's performance against these goals in the 2005–06 financial year.

Employment

Australian Ethical workforce

Australian Ethical employed 48 staff members in 2005–06, located across Canberra, Melbourne, Sydney, Brisbane and coastal NSW. Table 20 outlines the staff breakdown according to employment status, employment type, employment contract type and location. In 2005–06, Australian Ethical did not use any temporary or fixed term labour and did not host any supervised employees. The entire workforce was comprised of permanent full-time (31 staff) and permanent part-time (16 staff) employees and one casual employee.

Table 20: **Australian Ethical's workforce by status, employment type, employment contract and location for the financial years 2003–04, 2004–05 and 2005–06**

Australian Ethical's workforce	Financial year		
	2003–04	2004–05	2005–06
<i>Status</i>			
Employees – number of staff	41	46	48
Ongoing contractors – number of staff ¹	1	1	0
Supervised workers – number of staff	0	0	0
Total staff number (including casuals, contractors and supervised workers) ¹	41	46	48
Employees – FTE ²	35.5	39.4	41.9
Ongoing contractors – FTE	0.4	0.3	0.0
Supervised workers – FTE	0	0	0
Total FTE staff (including casuals, contractors and supervised workers)	35.9	39.7	41.9
<i>Employment type</i>			
Full-time	27	31	31
Part-time ³ – number of staff	13	15	17
Part-time – FTE	8.9	8.7	10.9
<i>Employment contract</i>			
Indefinite or permanent – number of staff	41	45	48
Indefinite or permanent – FTE	35.9	39.1	41.9
Fixed term or temporary – number of staff	0	1	0
Fixed term or temporary – FTE	0	0.6	0
<i>Employment location</i>			
Canberra office – number of staff	36	41	42
Canberra office – FTE	32.5	35.5	36.2
Other – number of staff	4	5	6
Other – FTE	3.4	4.2	5.7

¹ Some executive directors worked as both employees and ongoing contractors in 2004 and 2005.

² Full-time equivalent (FTE).

³ Including casual employees of Australian Ethical.

Staff turnover and employment creation

Australian Ethical saw three staff depart in 2005–06, representing a 6.4 per cent turnover of total permanent staff and a 7.2 per cent turnover of permanent full-time equivalent (FTE) staff for the year (Table 21). Two of the departing staff members were male and one was female. This is a reversal of the trends evident in the gender breakdown of Australian Ethical’s staff turnover for the previous two years, where more females than males moved on from the company. In previous years, departing staff have been centred in the 30-50 and 50 plus age categories. In 2005–06, two of the departing staff were under 30 and one was in the 30-50 age bracket (Table 21).

Table 21: Staff turnover for the financial years 2002–03, 2003–04 and 2004–05

Staff turnover ¹	Financial year		
	2003–04	2004–05	2005–06
<i>Turnover by employment type</i>			
Full-time employees departing	1	4	3
Part-time staff employees – number of staff	3	4	0
Part-time employees departing – FTE	1.3	2.6	0
Employees departing – FTE	2.3	6.6	3
Total staff at 30 June	38	44	47
Total FTE staff at 30 June	34.9	38.8	41.6
Staff turnover (% of total staff)	10.5%	18.2%	6.4%
Staff turnover (% of FTE staff)	6.6%	17.0%	7.2%
<i>Turnover by gender</i>			
Staff departing – female	3	5	1
Female staff turnover (% of total staff)	7.9%	11.4%	2.1%
Staff departing – male	1	3	2
Male staff turnover (% of total staff)	2.6%	6.8%	4.3%
<i>Turnover by age group</i>			
Staff departing <30	0	0	2
<30 Age group turnover (% of total staff)	0%	0%	4.3%
Staff departing 30-50	3	6	1
30-50 Age group turnover (% of total staff)	7.9%	13.6%	2.1%
Staff departing >50	1	2	0
>50 Age group turnover (% of total staff)	2.6%	4.5%	0%
<i>Turnover by location</i>			
Canberra office	4	8	2
Other	0	0	1

¹ Figures include permanent, contract, and probationary employees but not casual staff.

Staff numbers have continually increased over 2003–04, 2004–05 and 2005–06. Growth in staff was lower in 2005–06 than in the previous two years with total employee numbers increasing by 4.3 per cent to 48 (Table 22). Full time equivalent staff growth was 5.7 per cent. This increase brought FTE staff up to 41.9 in 2005–06.

Table 22: Net employment creation for the financial years 2003–04, 2004–05 and 2005–06

Employment creation	Financial year		
	2003–04	2004–05	2005–06
Net increase in staff numbers for year	3	5	2
Total staff number at 30 June	41	46	48
Increase in staff numbers for year	7.9%	12.2%	4.3%
Net increase in FTE staff for year	3.7	3.8	2.3
Total FTE staff at 30 June	35.9	39.7	41.9
Increase in FTE staff for year	11.5%	10.6%	5.7%

Employee benefits

Australian Ethical recognises that a healthy work/life balance is important for developing positive outcomes for both employees and employers. The company aims to attract and retain talented staff by providing a range of employee benefits that help to foster family relationships, on-going educational development and personal development. The benefits extended to all of Australian Ethical’s permanent full time employees are also enjoyed by the company’s permanent part-time employees and those on fixed-term employment contracts. The employee categories that do not receive all of the standard benefits offered to permanent full time employees at Australian Ethical are casual staff members and any supervised workers.

Australian Ethical’s current employment conditions include:

- flexible 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 two days paid study leave per year;
- three days additional leave between Christmas and New Year;
- the choice of being paid monthly or fortnightly;
- a subsidised personal development program;
- free access for staff and their families to a counselling service;

- annual leave loading of 17.5 per cent;
- salary sacrificing for notebook computers, portable printers, electronic diaries and superannuation.
- one day of paid volunteer work each year (or blocks of time equivalent to one day) with approved organisations.

Australian Ethical's commitment to develop workers' participation in the ownership of the company, and control of their workplaces, is documented in clause 2.2 of the company's constitution. Directors are required by this clause to report on the status of employees at the annual general meeting. Additionally, Australian Ethical has an employee share options plan, requires employees to elect a staff advocate, and has a profit sharing scheme that pays an annual bonus to employees.

Employee assistance program

All Australian Ethical employees and their immediate families have access to a free face-to-face and telephone counselling service. The service is completely confidential and is not restricted to work-based problems. IPS Worldwide is the current provider of this service.

Annual leave

Table 23 outlines the average number of annual leave days Australian Ethical staff had accrued at 30 June 2004, 30 June 2005 and 30 June 2006. The average number of untaken leave days per full-time equivalent staff rose from 17.7 in 2005 to 19.7 in 2006, an increase from approximately three and a half weeks of accrued leave to just under four weeks.

Table 23: Average annual leave accrued (days) per FTE staff as at 30 June 2004, 2005 and 2006

Annual leave accrued	Balance date		
	30.06.2004	30.06.2005	30.06.2006
Average annual leave accrued (days)/FTE staff	17.3	17.7	19.7

Occupational health and safety

Australian Ethical maintains a register for all workplace injuries occurring in both the Canberra office and all off-site locations. There were no injuries, including minor injuries requiring first aid treatment, occupational diseases or fatalities in the 2005–06 period.

The average number of days taken as sick leave per FTE staff member fell from 5.6 days in 2004–05 to 4.2 days in 2005–06. The average number of sick days taken for each staff member was 3.8 in 2005–06 (Table 24).

Table 24: **Sick leave taken (days) during the financial years 2003–04, 2004–05 and 2005–06**

Sick leave taken during year ¹	Financial year		
	2003–04	2004–05	2006–06
Average sick leave taken (days)/staff member	3.7	5.0	3.8
Average sick leave taken (days)/FTE staff	4.0	5.6	4.2
Employees – number of staff ¹	38	44	46
Total FTE staff	34.9	38.8	41.6

¹ Figures do not include casual or contract staff.

Training and education

Training and development

Australian Ethical recognises the immense benefits to be gained from facilitating the on-going training and professional development of its staff. For employees, the training schemes adopted by Australian Ethical offer the opportunity for increasing skills and career opportunities as well increasing job satisfaction. Australian Ethical obviously benefits from the increased skills and knowledge of its employees. It also benefits from the increased employee satisfaction rates. Offering comprehensive training and development schemes increases Australian Ethical’s ability to attract and retain talented employees.

During the 2005–06 financial year Australian Ethical staff completed a total 5120 hours of training and development, at an average 109 hours per staff member. This represents a 41 per cent increase over the 2004–05 financial year, when Australian Ethical staff completed a total 3611 hours of training and development at an average 82 hours per staff member.

Of the 5120 hours, paid training (structured training for which Australian Ethical paid as work time, including paid study leave) represented 26 per cent or 1334 hours, while private study (structured education/study pursued externally for which Australian Ethical provided financial support) represented 74 per cent or 3786 hours. These proportions are similar to those in 2004–05 and highlight the significant commitment of staff involved in longer term private study outside of work time.

A large proportion of the private study hours were undertaken by support staff completing graduate and post graduate education. During 2005–06, support staff undertook an average 169 hours of training and development, of which 148 hours was private study and 21 hours was paid training. This was significantly more than in 2004–05, when support staff undertook an average 103 hours of training and development, comprising 89 hours of private study and 14 hours of paid training (Figure 6).

As in previous years, professional staff and management undertook significantly less private study than support staff, reflecting the fact that staff members in these categories have already completed their tertiary education. Professional staff undertook an average 68 hours of training and development in 2005–06, comprising 39 hours of private study and 29 hours of paid training. This was slightly more than the average 66 hours of training and development undertaken in 2004–05 (comprising 41 hours of private study and 25 hours of paid training; Figure 6).

Management undertook a similar number of training and development hours as professional staff, although the amount of paid training was slightly higher. In 2005–06, management undertook an average 70 hours of training and development, comprising 28 hours of private study and 42 hours of paid training. This was a slight increase on the average 67 hours of training and development undertaken in 2004–05 (comprising 23 hours of private study and 44 hours of paid training; Figure 6).

A total of \$105 333 was spent on training and development in the 2005–06 financial year. This equates to \$2241 per staff member.

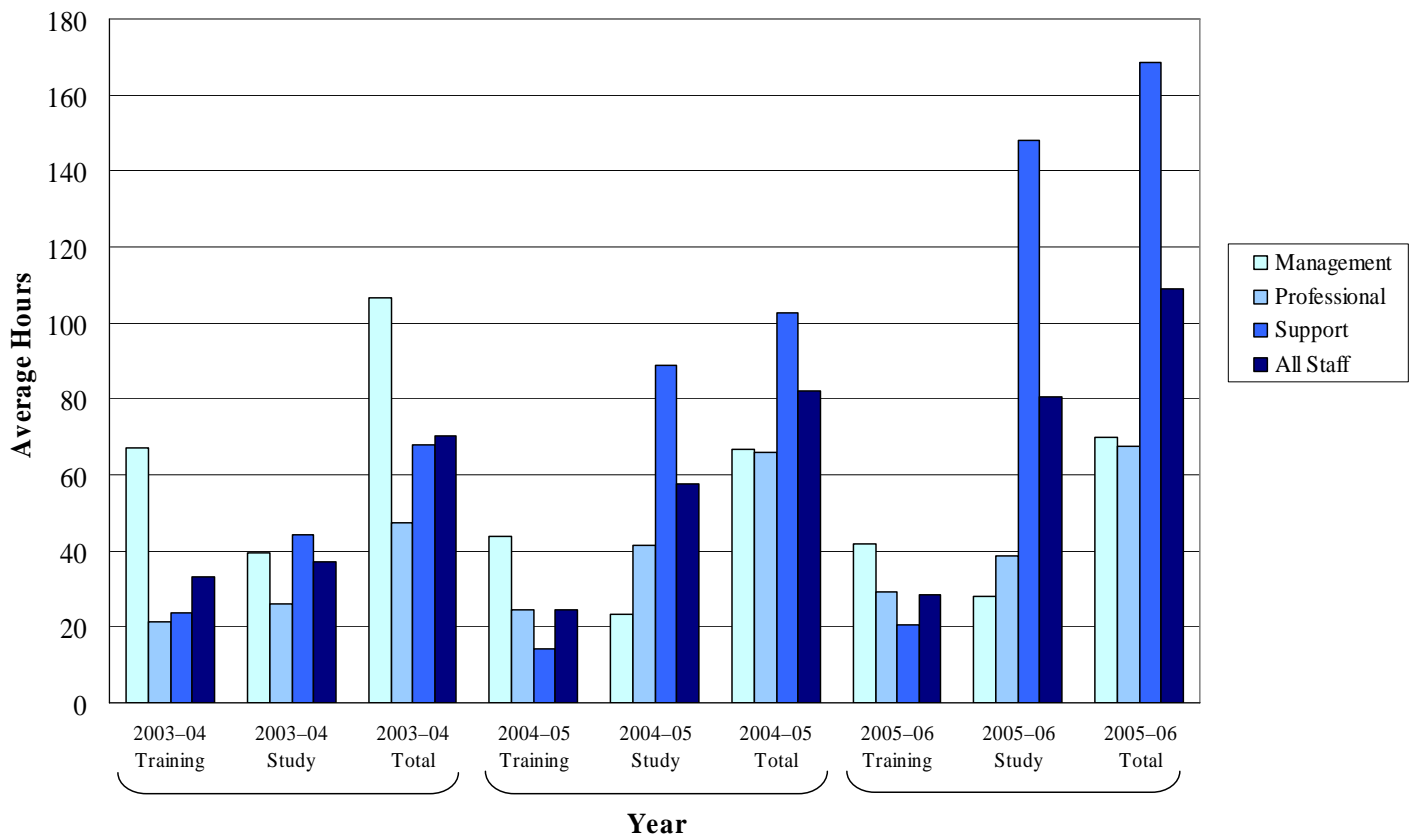


Figure 6: Average hours of training undertaken by staff during the financial years 2003–04, 2004–05 and 2005–06

Skills management and lifelong learning programs

Australian Ethical's promotion of lifelong learning and skills development extends beyond providing paid training to its employees.

The company also supports its employees in completing private external study and professional development courses by offering both financial support and paid study leave. Staff may take paid study leave for three hours per week to attend, or travel to, classes or to complete course work for approved programs. An additional two full days per year of paid study leave may also be taken for exam preparation or to finalise course requirements.

The reimbursement system for financial support for on-going training and professional development increased in 2005. Staff members are now reimbursed for 100 per cent of course fees, up to \$2000 per year per staff member, for approved external study programs upon completion.

The personal development program is another program in place designed to encourage lifelong learning for employees. This initiative began in 2001. All permanent employees are eligible for reimbursement twice per year for sporting activities, cultural interests and other personal development activities that are aligned with the Charter and spirit of the company. The program grew out of a lunchtime yoga group, subsidised by Australian Ethical, and expanded to include a wide range of interests and now covers sporting costs, gym memberships, dance and music classes. The personal development program aims to encourage employees to incorporate health, fitness and stress relief into every working week. The program is also one way Australia Ethical seeks to contribute to human happiness, dignity and education within its own workplace.

Severance pay and job placement services

Australian Ethical provides severance pay to employees where business restructuring has rendered a position redundant. The employee's length of service and age are factors that determine the size of the redundancy package offered. Severance packages of four weeks salary are also considered for employees with less than 12 months continuous service on a case by case basis.

Employees holding a redundant position will be notified three months prior to any operational change and Australian Ethical will make every effort to redeploy the staff member. Staff members will also have access to recruitment services to facilitate the move to a new role. The cost of this service will be covered by Australian Ethical.

Performance appraisal

All of Australian Ethical's employees receive an annual performance review. The review process is a 360-degree evaluation with input considered from all of the employee's colleagues, team and supervising staff. The process provides feedback to employees as well as acting as a map for training plans for the upcoming year and for future career development.

Diversity and equal opportunity

Equal opportunity policy

Australian Ethical recognises that addressing equal employment opportunity is an issue that requires an active approach. The idea of actively addressing equal employment opportunity is reflected in the inclusion of this issue into the Charter and into company policy. The Charter states that Australian Ethical will not invest in any venture that discriminates on the basis of race, religion or sex in employment, marketing or advertising. The company expands these principles in its equal employment opportunity policy:

'All employees shall receive fair and equitable treatment in all aspects of employment without regard to political affiliation or beliefs, union membership, gender, marital status, sexual orientation, pregnancy, physical disability or ethnic origin. Equal pay will be provided for equal work.'

Gender breakdown for employee categories and governance bodies

Table 25 outlines the gender breakdown for Australian Ethical's corporate governance bodies and employee categories at 30 June 2005 and 30 June 2006. The proportion of female representation at the board level has increased from 33 per cent in 2005 to 40 per cent in 2006 with the appointment of Pauline Vamos as chair. The proportion of females on the Australian Ethical Superannuation board remained constant at 40 per cent, as did the proportion of females on the compliance board at 33 per cent. The number of female staff members in professional roles rose in 2006 to 21 per cent from 13 per cent in 2005. The gender balance of the management team remained constant, with 20 per cent of managerial roles held by females. The proportion of females in administrative positions declined slightly in 2006. Approximately 63 per cent of administrative roles are held by females.

Table 25: Composition of corporate governance bodies and employee categories as of 30 June 2005 and 2006

Category ¹	Balance date					
	30.06.2005			30.06.2006		
	Total	%Male	% Female	Total	%Male	% Female
Australian Ethical board	6	67	33	5	60	40
AES board	5	60	40	5	60	40
Compliance committee	3	67	33	3	67	33
Executive officers	6	67	33	6	67	33
Management	10	80	20	10	80	20
Professional	16	87	13	19	79	21
Administrative	20	35	65	19	37	63

Ratio salaries of female to male by employee category

Table 26 details the ratio of female to male basic salaries by employee category for the 2003–04, 2004–05 and 2005–06 financial years. The basic salaries were calculated using hourly pay rates and do not include the Australian Ethical profit sharing scheme. During 2005–06, management salaries skewed further in favour of female staff, continuing the trend observed in the previous year. Salaries for professional roles continued the trend in the other direction, favouring male staff. Administrative salaries, while roughly equivalent in 2003–04 and 2004–05, were slightly skewed in favour of female staff in 2005–06.

Table 26: Ratio of female to male basic salaries per hierarchy level during the financial years 2003–04, 2004–05 and 2005–06

Category	Financial year		
	2003–04	2004–05	2005–06
	F:M salary ratio (%)	F:M salary ratio (%)	F:M salary ratio (%)
Management	120	129	135
Professional	108	87	76
Administrative	101	101	108

Table 27 describes the ratios of male to female salary packages across 2003–04, 2004–05 and 2005–06. The ratios were calculated to include the basic salary, superannuation, leave loading, profit sharing and options schemes. While the ratios are slightly different to those calculated using basic salaries (above), the overall result is the same.

Table 27: **Ratio of female to male salary packages per hierarchy level during the financial years 2003–04, 2004–05 and 2005–06**

Category	Financial year		
	2003–04 F:M salary ratio (%)	2004–05 F:M salary ratio (%)	2005–06 F:M salary ratio (%)
Management	120	128	133
Professional	107	89	78
Administrative	101	101	107

Human rights performance indicators

Investment and procurement practices

Australian Ethical’s investment process includes screening out companies that carry potential human rights risks. This principle is enshrined in the Charter and is interpreted to consider both the sector in which an investee company is involved as well as its location.

As an office-based business offering financial products, Australian Ethical has not traditionally thought of its supply chain as a potential human rights risk. As a result, the company has not specifically monitored the human rights performance of its suppliers. Without such a policy in existence in 2005–06, Australian Ethical is not able to report on training employees on human rights policies relevant to its operations.

Non-discrimination and indigenous rights

Australian Ethical had no reported incidents of discrimination on the grounds of race, colour, sex, religion, political opinion, national extraction or social origin in 2005–06.

Similarly, Australian Ethical has not recorded any incidents involving indigenous rights in the reporting period related to either employees or to communities near the company’s operations.

Australian Ethical recognises the Ngunnawal people as the traditional custodians of the Canberra area. It is within the Canberra region that Australian Ethical’s main office and staff are located.

Freedom of association and collective bargaining, child labour, forced and compulsory labour, and security practices

Australian Ethical, as an office based business in Australia offering financial products, is not exposed to significant human rights risks stemming from its operations. The company does not have operations in sectors or geographical areas that constitute a risk to the right to exercise freedom of association, nor those that carry significant risks of incidents of child labour or hazardous work for young people. Similarly, Australian Ethical does not have any operations in countries or sectors that carry risks of forced or compulsory labour. The nature and location of Australian Ethical's operations also mean that the company does not have any security staff, and therefore does not have a need to communicate human rights policies to security officers.

Society performance indicators

Community

Australian Ethical has a grants program in place which has been designed to allow for small community organisations in the Canberra region seek funds. In the past two years Australian Ethical has supported local community groups including Pedal Power ACT, Coast Watchers Association, Environmental Defenders Office (ACT) and the Conservation Council of South East Region and Canberra.

Australian Ethical also recognises the need to support unpaid work that is often unrecognised in the wider society, for example due to the lack of taxation assistance schemes. Australian Ethical grants program acknowledges small community organisations that perform outstanding volunteer work Australia wide and that for many small community organisations the grants are essential in ensuring the continuation of their positive work.

Corruption

Risks related to corruption are assessed and managed as part of ongoing compliance processes. The Australian Ethical code of conduct explicitly prohibits bribery:

‘As a general rule, don't accept (or offer to give) gifts, services, discounts, gratuities or other gains from (or to) people who conduct business with Australian Ethical. There are some exceptions – small gifts or invitations to local social or sporting functions are generally acceptable. The offering of bribes to anyone is prohibited outright. Breaking this principle could compromise all concerned and is illegal.’

The Australian Ethical code of conduct explicitly addresses areas of corruption pertaining to the financial sector. These include:

- conflicts of interest;
- insider trading;
- disclosure of confidential information;
- fair competition.

The specific instructions regarding insider trading state:

‘If you have non-publicly known, price-sensitive information such as: information acquired through working on investments, information about a proposal, information about any other entity in which Australian Ethical may have an interest; or information that has come to your knowledge through your employment with Australian Ethical, then you must not deal in that entity's investments or pass that information on to another person or encourage another person (for example, a family member) to make any investments in the entity. In addition, as a general rule, you should not buy or sell Australian Ethical shares between the close of the financial year, or half year, and the announcement of our results.’

In addition to the code of conduct, Australian Ethical also addresses the issues of bribery and corruption in the compliance manual. The compliance manual aims to ensure Australian Ethical's compliance with relevant legislation. These procedures aim to:

- identify roles and responsibilities of management and staff with regard to compliance;
- prevent compliance failures;
- deal with compliance failures which may occur;
- monitor, assess and report;
- record, analyse and store information; and
- educate staff on compliance.

All employees of Australian Ethical receive training on the code of conduct which covers anti-corruption policies. There were no recorded incidents of non-compliance with the code of conduct, including incidents of corruption.

Public policy

From time to time Australian Ethical contributes to public policy that relates to its core business of ethical investment. In April 2006 Australian Ethical contributed to the ACT Climate Change Strategy and Energy Policy and welcomes the opportunity to contribute further in this regard. The Climate Change Strategy and Energy Policy

are available on ACT government website, as well as Australian Ethical's submission: <http://www.sustainability.act.gov.au/greenhouse/Submissions.html>

The company is often asked for comment on the nature of ethical investment, especially in relation to the defining feature of the company, the Australian Ethical Charter and the position taken in relation to investment in uranium mining. Australian Ethical has distinguished itself from other 'ethical' investment funds on the public policy issue of uranium mining, and media reports reflect this public stance.

Political donations

Australian Ethical's code of conduct prohibits unauthorised political donations and states that political donations may only be made by the board. No political donations were made during the 2003–04, 2004–05 and 2005–06 financial years.

Donations made by corporations and organisations to political parties can distort the democratic principle of one vote one value. Whilst parties can use the donations to fund election promises and day-to-day activities, donations also open the way for disproportionate and unique access and influence to politicians.

Anti-competitive behaviour

There were no legal actions for anticompetitive behaviour, anti-trust, and monopoly practices.

Compliance

There were no significant fines or non-monetary sanctions for non-compliance with laws and regulations.

Product responsibility performance indicators

Asset management policy

Australian Ethical offers investors something extra to conventional investment by applying its unique combination of financial and ethical objectives to the selection of investments.

These objectives are:

- to contain the risk of investing;
- to obtain a financial return commensurate with any risk taken;
- to avoid investment in activities which are socially or environmentally detrimental; and

- to prioritise investment in profitable activities which bring social or environmental benefits.

Australian Ethical selects investments for the trusts that contribute to a just and sustainable human society and the protection of the natural environment, as well as providing a return commensurate with any risk taken.

Each investment must meet the positive requirements of the Australian Ethical Charter which is an integral part of the selection process. It is this Charter that makes the Australian Ethical investment methodology unique in the ethical investment market.

The application of the Australian Ethical Charter defines the universe of investments for the four trusts. As at 30 June 2006, this universe covered a broad spectrum of sectors and countries (Tables 28 and 29).

Table 28: Percentage of investments by sector as at 30 June 2006

Sector	Balanced trust	Equities trust	Income trust	Large Companies trust
Consumer discretionary	6.46	7.80	1.95	8.86
Consumer staples	1.96	3.24	-	3.48
Corporate - international	0.40	0.43	-	-
Corporate - unlisted	5.08	0.89	11.21	-
Energy	2.14	7.45	2.92	4.66
Financials	27.70	4.02	44.87	10.56
Health Care	9.78	15.79	-	22.08
Industrials	10.04	21.73	-	15.65
Information technology	1.90	6.38	-	5.72
Managed funds	4.32	0.61	-	-
Materials	1.98	4.30	-	3.84
Property	0.13	-	-	-
Property trusts	2.80	-	-	2.22
Securitised debt	5.69	-	21.98	-
Semi-government	2.29	-	4.83	-
Utilities	13.72	21.79	2.46	19.55
Other	3.62	5.57	9.78	3.38

Table 29: **Percentage of investments by country as at 30 June 2006**

Country	Balanced Trust	Equities Trust	Income Trust	Large Companies Trust
Australia	81.48	73.53	94.64	71.91
Denmark	0.94	1.35	-	1.23
France	0.25	0.50	-	-
Germany	-	0.75	-	-
Japan	0.93	2.19	-	1.88
Netherlands	0.40	0.43	-	-
Norway	1.69	3.41	-	3.29
Singapore	-	0.21	-	-
Spain	0.20	0.41	-	0.40
Switzerland	0.64	0.88	-	0.87
United Kingdom	2.00	4.17	-	3.91
United States	11.47	12.18	5.36	16.51

Australian Ethical is a specialist in its field of ethical investment. Researchers from the Centre for Australian Ethical Research Pty Ltd (CAER), in association with Australian Ethical analysts, investigate potential investee enterprises to assess the ethical merits of the investments. This work is supervised by the investment committee and combines financial and ethical analysis to determine selection priorities. By utilising the services of CAER and the work of Australian Ethical analysts, the investment committee is able to monitor and keep abreast of major new scientific initiatives, outcomes and developments (attendance at conferences and seminars covering environmental and social issues assist researchers in identifying potential risks and opportunities). This research capacity allows an active approach to seeking out enterprises dedicated to the sustainable improvement of communities, company operations and business on environmental, social and ethical grounds.

The investment philosophy is based upon the principles of the Australian Ethical Charter. The Charter acts as a guide in setting out the types of activities to be supported, and the types of activities to be avoided. Thus, for example, Australian Ethical is supportive of companies whose business and/or activities involve the efficient use of human waste, but avoids investment in companies considered to unnecessarily promote products or services in a misleading manner.

Whilst there are certain types of companies which Australian Ethical will not invest in (for example, companies operating in the tobacco, uranium or gambling industries), we are also very active in our positive approach to investment selection. Australian Ethical differs from most ethical fund managers because of this, as we do

not merely apply negative screening to the range of possible investments, rather we support positive sustainable investments.

When making decisions on the ethical merits of a company, Australian Ethical will first consider the core business activity of the company in question. Investment becomes a possibility if the core activity of the company falls into any of the areas the Charter highlights that Australian Ethical might be seeking to support, and does not directly contravene any principles that the charter seeks to avoid.

Having made this determination, it is then necessary to determine whether the way in which the company behaves in carrying out its core activities might contravene an aspect of the Charter, or might be identified as being supported by the Charter. This in-depth ethical research is carried out by CAER. Information used in CAER's research process is gathered from a range of publicly available sources, including media, government information and material from non-government organisations.

After deliberations have allowed suggested potential investments to be accepted according to the Charter, thorough financial analysis is undertaken by Australian Ethical investment financial analysts.

Australian Ethical's monitoring of investments is very rigorous. Once a company makes it through the investment selection process set out above and becomes an investment, it is the subject of constant and ongoing monitoring as to its ethical behaviour. All companies within the trusts have a formal ethical review at least annually with continual monitoring through media sources. All unitholder queries in regards the ethical performance of investee companies are responded to as soon as possible and a review and summary of enquiries is passed to the investment committee as part of their quarterly meeting process.

If an investee company diversifies into an excluded industry or engages in unacceptable practices, a review will be performed which may involve company engagement (either correspondence, telephone or face-to face) both prior to and after the event. If, on the weight of evidence, the stock is no longer appropriate, it will be divested as soon as practicable.

In developing the engagement process for a particular investment, Australian Ethical and CAER will work together to develop the optimum approach. Australian Ethical and CAER maintain a clear documentation of the engagement process. During the 2005–06 financial year Australian Ethical and CAER engaged with 12 companies on environmental and social issues. This represented ten per cent of the 119 investee entities held at the end of the financial year.

Debate is an integral part of this decision making process – for this reason Australian Ethical is keen to hear from stakeholders. While we reserve the right to exercise judgment regarding investment selection, comments about the ethical profiles of trust investments are reported regularly to the Australian Ethical investment committee by CAER, Australian Ethical’s research providers.

Australian Ethical aims to be as transparent as possible about the results of the investment process. The product disclosure statements include details of companies invested in and a regularly updated listing of investments also appears on the company website www.austethical.com.au.

In October 2005, Australian Ethical became one of the first fund managers to receive certification under the new Ethical Investment Association (EIA) Sustainable Responsible Investment (SRI) certification program. This symbol involves verification of Australian Ethical’s investment selection processes through an independent auditing process managed by the association. Further information can be found at www.eia.org.au.

Proxy voting policy

It is Australian Ethical’s policy to vote (or make a considered decision to abstain) on investee company resolutions where it has voting authority and responsibility to do so (consistent with IFSA Standard No 13.00 – Proxy Voting). As at 30 June 2006, the percentage of investments where Australian Ethical held the right to vote was approximately 70 percent.

Decisions on how to vote proxies will be made on a company-by-company, resolution-by-resolution basis with regard to the following factors:

- The preservation and increase of the value of the investment in the best interests of members in the trust;
- Improving and upholding the governance of investee companies;
- The overall performance of the investee company;
- The application of the Australian Ethical Charter with respect to the resolution under consideration.

During the 2005–06 financial year Australian Ethical voted all of its proxies for Australian investee companies (where notification was received). A total of 610 resolutions were voted on across the Balanced Trust, Equities Trust, and Large Companies Share Trust (no shares are held by the Income Trust). Of the 610 resolutions voted on across the three Trusts, 43 were voted ‘Against’ and we ‘Abstained’ from voting on 13. The negative votes related to remuneration issues (director fees and the issue of options to directors) and the election/re-election of particular directors. The resolutions we abstained from voting on related to analysts

being uncertain of some international company laws and the others we were not eligible to vote on.

In May 2006, our international custodian, RBC Global Services, made arrangements for Australian Ethical to be registered with ADP Investor Services' Proxyedge. Proxyedge provides notification of upcoming meetings for international companies. The trusts intend to exercise their voting rights for all international investee companies during the 2006-07 financial year.

Further information on Australian Ethical's proxy voting policy and our proxy voting record for the period 1 July 2005 to 30 June 2006 can be found on the company's website www.austethical.com.au.

Product and service labelling

Under the *Corporations Act 2001* (amended by the Financial Services Reform Act), a retail client should receive a product disclosure statement before acquiring a financial product. A product disclosure statement is a document that sets out the key features of the financial product being offered and should include any risks, benefits and cost involved with the financial offering. Australian Ethical's policy is to complete and distribute a product disclosure statement as required by law and in accordance with company compliance procedures.

Company procedure includes the review of product disclosure statements by appropriate section within Australian Ethical, this is then completed through verification and sign-off by the section head. Product disclosure statements are reviewed by Australian Ethical's legal team and board delegates, deemed responsible for overseeing the review of the document.

In addition to this, tenet 'b' of the Australian Ethical Charter states that the company should seek out and support production of high quality and properly presented products and services. Adherence to this tenet is required internally by Australian Ethical as well, as it is enshrined in the company constitution. Hence the same standard applies to the company's internal operations as the Charter would require the company's support of an investee company or potential investment. In short 100 per cent of the company's products and services are subject to these information requirements.

In the 2005-06 financial year there were no incidents of non-compliance with regulations and voluntary codes concerning products and service labelling.

The company regularly monitors customer satisfaction to gauge if there are specific areas of concern for customers. During the 2005-06 financial year the company

recorded 36 complaints covering a range of issues. Less than 10 per cent of complaints concerned fees and the largest percentage of complaints concerned processing (27 per cent). This is an improvement from 52 complaints recorded in the previous year. All complaints were addressed in a professional and satisfactory manner.

Marketing communications

Company marketing activities are carried out within the broader context of the Australian Ethical business plan and the overall strategy of the marketing section. These company activities are carried out in accordance with marketing section procedures and the Australian Ethical constitution. Programs for adherence to laws, standards, and voluntary codes that have particular relevance to Australian Ethical's marketing activities include the *Corporations Act 2001*; Goods and Services Tax; National Privacy Principles; copyright; *Spam Act 2003*; *Trade Practices Act 1974*, Australian Securities and Investments Commission (ASIC); Investment and Financial Services Association Limited; Association of Superannuation Funds of Australia Limited; and the Advertising Standards Council.

Customer privacy

There were no substantiated complaints regarding breaches of customer privacy during the 2005-06 financial year.

Compliance

No significant breaches were reported to ASIC during the reporting period. The Australian Prudential Regulation Authority (APRA) was notified of several minor matters as required under the group's registrable superannuation entity license. The company secretary maintains a breach register and the compliance committee compiles an annual report for the Australian Ethical board.

Concluding remarks

This 2006 sustainability report is Australian Ethical's fifth such report. Each report has been prepared with reference to the global reporting initiative. Australian Ethical is one of a very select few small to medium enterprises around the world that can boast such a strong history of sustainability reporting.

We hope that you have found the report both interesting and informative. If you have any suggestions on ways in which to improve the content and quality of the report, please fill in the feedback form located at the back of this report or on the Australian Ethical website www.austethical.com.au.

For further information on Australian Ethical's economic, environmental and social activities, please contact:

Philip George
Company Secretary

Australian Ethical Investment Ltd
GPO Box 2435
Canberra ACT 2601

Phone: +61 2 6201 1988
Facsimile: +61 2 6201 1987
E-mail: companysecretary@austethical.com.au

Appendices

Appendix A – Organisations awarded grants under Australian Ethical's community grants program – 2005

\$6000

- Kingfisher Centre – Aspley Special School
- Tasmanian Conservation Trust
- Volunteers for Isolated Students Education (VISE)
- Deadly Treadlies – Alice Springs Youth Accommodation and Support Services

\$3500

- The Fred Hollows Foundation
- Midlands Initiatives for Local Enterprises
- The Wilderness Society
- Clean Ocean Foundation
- Australian Bush Heritage Fund
- Huon Valley Environment Centre

\$2500

- TEAR
- Asylum Seeker Resource Centre
- Australian Wildlife Conservancy
- Medecins Sans Frontieres
- Hopetreet – Cleaners with a Mission
- Australian Marine Conservation Society
- Brotherhood of St Laurence
- Amnesty International
- NSW Wildlife and Information Service (WIRES)
- Engineers Without Borders Australia WA Chapter

\$1200

- International Women's Development Agency
- Wyalong and District Transport Group
- The Australia Institute
- Pedal Power ACT
- Alternative Technology Association – Solar Power for East Timor
- The Coastwatchers Association
- Youth off the Streets
- Greening Australia – South Australia
- Conservation Council of Western Australia
- Blue Mountains Wildplant Rescue Service
- The Queensland Conservation Council
- Australian Breastfeeding Association – North East Region Victoria
- African Enterprise
- New Internationalist
- Barefoot Economy
- Tarkine National Coalition
- Australian Conservation Foundation
- Rainforest Rescue
- Dharmapala Buddhist Centre
- Conservation Council of the South East Region and Canberra
- Camp Ichthus
- Medical Association for the Prevention of War (Australia)
- International Volunteers for Peace
- AID/Watch

Appendix B – Organisations awarded grants under Australian Ethical’s community grants program – 2006

\$9000

- Australian Marine Conservation Society
- Australians for Disability and Diversity Employment
- Eden Aboriginal Evangelical Church
- Médecins Sans Frontières

\$6000

- Alternative Technology Association
- Solar Power for East Timor
- Australian Bush Heritage Fund
- Clean Ocean Foundation
- Engineers without Borders – WA Chapter
- Lismore Soup Kitchen
- The Coastwatchers Association

\$3500

- Australian Conservation Foundation
- Barefoot Economy
- Deadly Treadlies
- Environmental Defenders Office – ACT
- Hopestreet Cleaners with a Mission
- Huon Valley Environment Centre
- Southern Cross Kid’s Camps
- TEAR Australia
- The Wilderness Society
- Tolga Bat Rescue
- Water Aid

\$2050

- Animal Liberation – NSW
- Anti-Slavery Project

- Australia and New Zealand Solar Energy Society
- Australian Seabird Rescue
- Bicycle Federation of Australia
- Wyalong & District Community Transport Group Inc
- Brush Tailed Rock Wallaby Recovery team
- Camp Ichthus
- Communities at Work
- Conservation Council of the South East Region
and Canberra
- Fair Trade Association of Australia and New Zealand
- Foster Care of Australia’s Unique Native Animals
- Friends of the Earth Australia (Climate Justice campaign)
- Greening Australia – SA
- Hepburn Wildlife Shelter
- International Women’s Development Agency
- Kingfisher Centre
- Migrant Resource Centre
- Mineral Policy Institute
- Murrumbateman Landcare Group
- Najidah Association
- Otis Foundation
- Pedal Power
- RSPCA Lonsdale Shelter – SA
- The Climate Group
- Total Environment Centre
- Towamba Community Progress Association
- Wildcare
- NSW Wildlife Information and Rescue Service (WIRES)

Global reporting initiative indicators

GRI content index

Source: Global reporting initiative (GRI) G3 guidelines

PROFILE	Page No.	Reason for omission
1. STRATEGY AND ANALYSIS		
1.1 Statement from the most senior decision maker of the organisation (e.g., CEO, chair, or equivalent senior position) about the relevance of sustainability to the organisation and its strategy.	1	
1.2 Description of key impacts, risks, and opportunities.	1	
2. ORGANISATIONAL PROFILE		
2.1 Name of the organisation.	3	
2.2 Primary brands, products, and/or services.	3	
2.3 Operational structure of the organisation, including main divisions, operating companies, subsidiaries, and joint ventures.	3	
2.4 Location of organisation's headquarters.	3	
2.5 Number of countries where the organisation operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report.	3	
2.6 Nature of ownership and legal form.	3	
2.7 Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries).	3	
2.8 Scale of the reporting organisation, including: <ul style="list-style-type: none"> • Number of employees; • Net sales (for private sector organisations) or net revenues (for public sector organisations); • Total capitalisation broken down in terms of debt and equity (for private sector organisations); and • Quantity of products or services provided. 	3	
2.9 Significant changes during the reporting period regarding size, structure, or ownership including: <ul style="list-style-type: none"> • The location of, or changes in operations, including facility openings, closings, and expansions; and • Changes in the share capital structure and other capital formation, maintenance, and alteration operations (for private sector organisations). 	3	
2.10 Awards received in the reporting period.	4	
3. REPORT PARAMETERS		
Report Profile		
3.1 Reporting period (e.g., fiscal/calendar year) for information provided.	6	
3.2 Date of most recent previous report (if any).	6	
3.3 Reporting cycle (annual, biennial, etc.)	6	
3.4 Contact point for questions regarding the report or its contents.	6	
Report Scope and Boundary		
3.5 Process for defining report content, including: <ul style="list-style-type: none"> • Determining materiality; • Prioritising topics within the report; and • Identifying stakeholders the organisation expects to use the report. 	6	
3.6 Boundary of the report (e.g., countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers).	7	
3.7 State any specific limitations on the scope or boundary of the report.	7	
3.8 Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organisations.	7	

3.9 Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the Indicators and other information in the report.	8	
3.10 Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement (e.g., mergers/acquisitions, change of base years/periods, nature of business, measurement methods).	8	
3.11 Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report.	7	
<u>GRI Content Index</u>		
3.12 Table identifying the location of the Standard Disclosures in the report. Identify the page numbers or web links where the following can be found: <ul style="list-style-type: none"> • Strategy and Analysis 1.1 – 1.2; • Organisational Profile 2.1 – 2.10; • Report Parameters 3.1 – 3.13; • Governance, Commitments, and Engagement 4.1 – 4.17; • Disclosure of Management Approach, per category; • Core Performance Indicators; • Any GRI Additional Indicators that were included; and • Any GRI Sector Supplement Indicators included in the report. 	71	
<u>Assurance</u>		
3.13 Policy and current practice with regard to seeking external assurance for the report. If not included in the assurance report accompanying the sustainability report, explain the scope and basis of any external assurance provided. Also explain the relationship between the reporting organisation and the assurance provider(s).	9	
4. GOVERNANCE, COMMITMENTS, AND ENGAGEMENT		
<u>Governance</u>		
4.1 Governance structure of the organisation, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organisational oversight.	11	
4.2 Indicate whether the Chair of the highest governance body is also an executive officer (and, if so, their function within the organisation’s management and the reasons for this arrangement).	12	
4.3 For organisations that have a unitary board structure, state the number of members of the highest governance body that are independent and/or non-executive members.	12	
4.4 Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body. Include reference to processes regarding: <ul style="list-style-type: none"> • The use of shareholder resolutions or other mechanisms for enabling minority shareholders to express opinions to the highest governance body; and • Informing and consulting employees about the working relationships with formal representation bodies such as organisation level ‘work councils’, and representation of employees in the highest governance body. Identify topics related to economic, environmental, and social performance raised through these mechanisms during the reporting period. 	27	
4.5 Linkage between compensation for members of the highest governance body, senior managers, and executives (including departure arrangements), and the organisation’s performance (including social and environmental performance).	15	
4.6 Processes in place for the highest governance body to ensure conflicts of interest are avoided.	20	
4.7 Process for determining the qualifications and expertise of the members of the highest governance body for guiding the organisation’s strategy on economic, environmental, and social topics.	12	

4.8 Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation. Explain the degree to which these: <ul style="list-style-type: none"> • Are applied across the organisation in different regions and department/units; and • Relate to internationally agreed standards. 	19	
4.9 Procedures of the highest governance body for overseeing the organisation's identification and management of economic, environmental, and social performance, including relevant risks and opportunities, and adherence or compliance with internationally agreed standards, codes of conduct, and principles.	11	
4.10 Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance.	15	
<u>Commitments to External Initiatives</u>		
4.11 Explanation of whether and how the precautionary approach or principle is addressed by the organisation.	22	
4.12 Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organisation subscribes or endorses.	22	
4.13 Memberships in associations (such as industry associations) and/or national/international advocacy organisations in which the organisation: <ul style="list-style-type: none"> • Has positions in governance bodies; • Participates in projects or committees; • Provides substantive funding beyond routine membership dues; or • Views membership as strategic. 	22	

<u>Stakeholder Engagement</u>		
4.14 List of stakeholder groups engaged by the organisation. Examples of stakeholder groups are: <ul style="list-style-type: none"> • Communities; • Civil society; • Customers; • Shareholders and providers of capital; • Suppliers; and • Employees, other workers, and their trade unions. 	24	
4.15 Basis for identification and selection of stakeholders with whom to engage.	24	
4.16 Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group.	24	
4.17 Key topics and concerns that have been raised through stakeholder engagement, and how the organisation has responded to those key topics and concerns, including through its reporting.	24	
5. MANAGEMENT APPROACH AND PERFORMANCE INDICATORS		
<u>Economic Performance Indicators</u>		
<u>Disclosure on Management Approach</u>		
<u>Aspect: Economic Performance</u>		
EC1 Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments. (Core)	29	
EC2 Financial implications and other risks and opportunities for the organisation's activities due to climate change. (Core)	32	
EC3 Coverage of the organisation's defined benefit plan obligations. (Core)	32	
EC4 Significant financial assistance received from government. (Core)	33	

Aspect: Market Presence		
EC5 Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation. (Additional)	-	Australian Ethical was not able to collect this information for the 2005–06 report. The company aims to include this indicator in the future.
EC6 Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation. (Core)	33	
EC7 Procedures for local hiring and proportion of senior management hired from the local community at locations of significant operation. (Core)	33	
Aspect: Indirect Economic Impacts		
EC8 Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement. (Core)	34	
EC9 Understanding and describing significant indirect economic impacts, including the extent of impacts. (Additional)	-	Australian Ethical was not able to collect this information for the 2005–06 report. The company aims to include this indicator in the future.
Environmental Performance Indicators		
Disclosure on Management Approach	35-47	
Aspect: Materials		
EN1 Materials used by weight or volume. (Core)	38	
EN2 Percentage of materials used that are recycled input materials. (Core)	38	
Aspect: Energy		
EN3 Direct energy consumption by primary energy source. (Core)	39	
EN4 Indirect energy consumption by primary source. (Core)	39	
EN5 Energy saved due to conservation and efficiency improvements. (Additional)	42	
EN6 Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives. (Additional)		
EN7 Initiatives to reduce indirect energy consumption and reductions achieved. (Additional)	42	
Aspect: Water		
EN8 Total water withdrawal by source.	41	
EN9 Water sources significantly affected by withdrawal of water. (Additional)	-	Water is supplied to Australian Ethical's offices at the Downer Business Park by ActewAGL. ActewAGL provides water services to the people of the Australian Capital Territory (ACT). The ACT draws its water supply from two separate catchment systems, the Cotter River catchment and the Googong system. These water sources are not significantly affected by Australian Ethical's water use.
EN10 Percentage and total volume of water recycled and reused. (Additional)	-	Australian Ethical's offices at the Downer Business Park do not recycle or re-use water. During 2005–06, zero cubic metres of water were recycled/re-used (zero per cent of total water use).

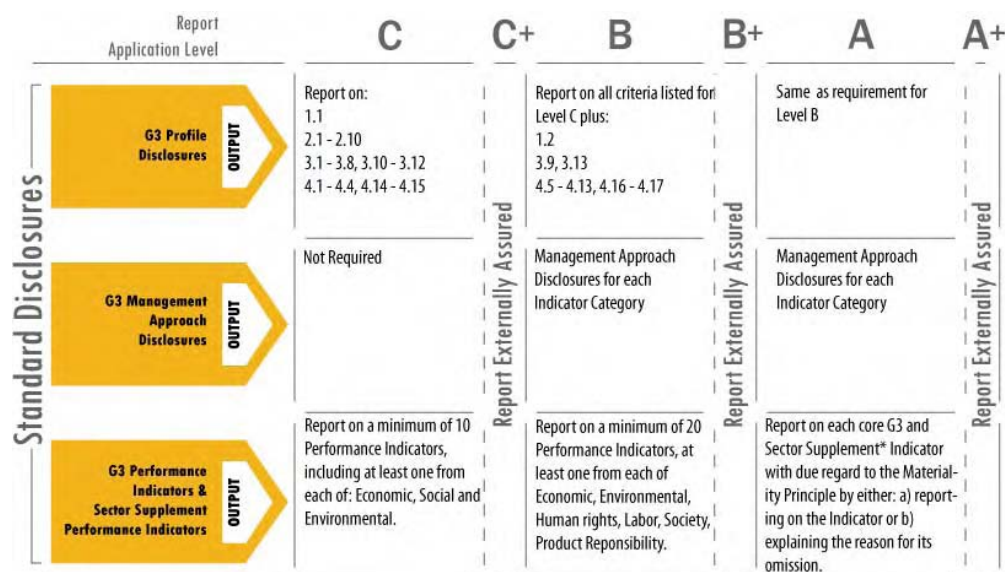
Aspect: Biodiversity		
EN11 Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas. (Core)	-	Australian Ethical's offices are located in an urban environment in the Canberra suburb of Downer. The site is not located in, or adjacent to, protected areas or areas of high biodiversity value.
EN12 Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas. (Core)	-	Australian Ethical, through its activities, products and services, seeks to preserve endangered ecosystems and biodiversity. During 2005–06, the company did not have a significant impact on biodiversity in protected areas and areas of high biodiversity value outside protected areas.
EN13 Habitats protected or restored. (Additional)	-	During 2005–06, Australian Ethical was not directly involved in the protection or restoration of habitat.
EN14 Strategies, current actions, and future plans for managing impacts on biodiversity. (Additional)	-	As outlined in the Australian Ethical Charter, Australian Ethical seeks to preserve endangered ecosystems and biodiversity. In addition to selecting every investment with which we are involved in accordance with the Charter, Australian Ethical aims to conduct its operations in accordance with the tenets of the Charter.
EN15 Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk. (Additional)	-	Australian Ethical's offices are located in an urban environment in the Canberra suburb of Downer. There are no IUCN Red List species or national conservation list species with habitats in the area affected by operations.
Aspect: Emissions, Effluent, and Waste		
EN16 Total direct and indirect greenhouse gas emissions by weight. (Core)	45	
EN17 Other relevant indirect greenhouse gas emissions by weight. (Core)	45	
EN18 Initiatives to reduce greenhouse gas emissions and reductions achieved. (Additional)	45	
EN19 Emissions of ozone-depleting substances by weight. (Core)	-	Australian Ethical is an office based company. Emissions of ozone-depleting substances is considered to be a non-material issue for Australian Ethical. The company does not currently measure or report on this issue.
EN20 NO, SO, and other significant air emissions by type and weight. (Core)	-	Australian Ethical is an office based company. Emissions of NO _x , SO _x , and other air emissions is considered to be a non-material issue for Australian Ethical. The company does not currently measure or report on this issue.
EN21 Total water discharge by quality and destination. (Core)	-	Water discharged by Australian Ethical is limited to rainwater and domestic sewage. The company does not discharge effluents or process water to a facility for treatment.

EN22 Total weight of waste by type and disposal method. (Core)	43	
EN23 Total number and volume of significant spills. (Core)	-	As an office based company, Australian Ethical does not directly handle oil or fuel; however, a small amount of cleaning products are stored on-site. There were no significant spills recorded during 2005–06.
EN24 Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally. (Additional)	-	The majority of Australian Ethical’s waste is general office waste, not deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII. A small proportion may be considered hazardous (e.g. batteries etc); however, this is not considered to be material.
EN25 Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organisation’s discharges of water and runoff. (Additional)	-	As noted above, water discharged by Australian Ethical is limited to rainwater and domestic sewage. The limited amount of runoff from the site does not significantly affect the biodiversity value of the local urban water body, Lake Burley Griffin.
Aspect: Products and Services		
EN26 Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation. (Core)	46	
EN27 Percentage of products sold and their packaging materials that are reclaimed by category. (Core)	-	With the exception of marketing documents, Australian Ethical does not produce a physical product that can be recycled at the end of its useful life. Enquirers receiving Australian Ethical’s marketing documents may recycle the paper; however, it is unclear what percentage of the total documents mailed this would comprise.
Aspect: Compliance		
EN28 Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with environmental laws and regulations. (Core)	47	
Aspect: Transport		
EN29 Significant environmental impacts of transporting products and other goods and materials used for the organisation’s operations, and transporting members of the workforce. (Additional)	43	
Aspect: Overall		
EN30 Total environmental protection expenditures and investments by type. (Additional)	47	
Labour Practices and Decent Work Performance Indicators		
Disclosure on Management Approach	48-58	
Aspect: Employment		
LA1 Total workforce by employment type, employment contract, and region.	48	
LA2 Total number and rate of employee turnover by age group, gender, and region.	50	
LA3 Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations. (Additional)	51	

Aspect: Labour/Management Relations		
LA4 Percentage of employees covered by collective bargaining agreements. (Core)	-	All of Australian Ethical's staff are employed under individual contracts due to the size of the company and the diversity of positions held by employees within it.
LA5 Minimum notice period(s) regarding operational changes, including whether it is specified in collective agreements. (Core)	-	Australian Ethical does not have a minimum period for notifying employees of any substantial operational changes. The company has stated, however, that a minimum of three months' notice will be given to any employee whose position has been made redundant due to business restructuring.
Aspect: Occupational Health and Safety		
LA6 Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs. (Additional)	-	Australian Ethical does not have a joint management/worker health and safety committee.
LA7 Rates of injury, occupational diseases, lost days, and absenteeism, and number of work related fatalities by region. (Core)	52	
LA8 Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases. (Core)	-	Australian Ethical is not present in countries with high rates of communicable diseases nor is it in an industry linked to specific diseases or conditions. The company, therefore, does not have targeted education in this area.
LA9 Health and safety topics covered in formal agreements with trade unions. (Additional)	-	Australian Ethical does not have formal agreements with trade unions.
Aspect: Training and Education		
LA10 Average hours of training per year per employee by employee category. (Core)	53	
LA11 Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings. (Additional)	55	
LA12 Percentage of employees receiving regular performance and career development reviews. (Additional)	56	
Aspect: Diversity and Equal Opportunity		
LA13 Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity. (Core)	56	Australian Ethical currently only collects data on the gender breakdown of governance bodies and employee groups. The company is looking at reporting additional diversity indicators in 2006-07.
LA14 Ratio of basic salary of men to women by employee category. (Core)	57	
Human Rights Performance Indicators		
Disclosure on Management Approach	58-59	
Aspect: Investment and Procurement Practices		
HR1 Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening. (Core)	58	
HR2 Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken. (Core)	58	
HR3 Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained. (Additional)	58	

Aspect: Non-Discrimination		
HR4 Total number of incidents of discrimination and actions taken. (Core)	58	
Aspect: Freedom of Association and Collective Bargaining		
HR5 Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk, and actions taken to support these rights. (Core)	59	
Aspect: Child Labour		
HR6 Operations identified as having significant risk for incidents of child labor, and measures taken to contribute to the elimination of child labor. (Core)	59	
Aspect: Forced and Compulsory Labour		
HR7 Operations identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of forced or compulsory labor. (Core)	59	
Aspect: Security Practices		
HR8 Percentage of security personnel trained in the organisation's policies or procedures concerning aspects of human rights that are relevant to operations. (Additional)	59	
Aspect: Indigenous Rights		
HR9 Total number of incidents of violations involving rights of indigenous people and actions taken. (Additional)	58	
Society Performance Indicators		
Disclosure on Management Approach	59-61	
Aspect: Community		
SO1 Nature, scope, and effectiveness of any programs and practices that assess and manage the impacts of operations on communities, including entering, operating, and exiting. (Core)	59	
Aspect: Corruption		
SO2 Percentage and total number of business units analysed for risks related to corruption. (Core)	59	
SO3 Percentage of employees trained in organisation's anti-corruption policies and procedures. (Core)	59	
SO4 Actions taken in response to incidents of corruption. (Core)	59	
Aspect: Public Policy		
SO5 Public policy positions and participation in public policy development and lobbying. (Core)	60	
SO6 Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country. (Additional)	61	
Aspect: Anti-Competitive Behaviour		
SO7 Total number of legal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes. (Additional)	61	
Aspect: Compliance		
SO8 Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with laws and regulations. (Core)	61	
Product Responsibility Performance Indicators		
Disclosure on Management Approach	61-67	
Aspect: Customer Health and Safety		
PR1 Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures. (Core)	-	Australian Ethical facilitates the ability for investors to invest ethically. This investment process takes into account cradle to grave impacts of business operations and their products, as well as health and safety. This indicator is not directly applicable to the services offered by the company. Company operations are all undertaken in the light of the Australian Ethical Charter, which requires the life cycle stages and health and safety impacts of businesses and their operations.

PR2 Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes. (Additional)	-	As with the PR 1 indicator above, while certain regulations and codes with regards to health and safety impacts are considered through the Australian Ethical Charter, the incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of business products and services are not relevant to company operations. Investment products and services provided by the company do not fall into the parameters of this particular indicator.
Aspect: Product and Service Labelling		
PR3 Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements. (Core)	66	
PR4 Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes. (Additional)	66	
PR5 Practices related to customer satisfaction, including results of surveys measuring customer satisfaction. (Additional)	66	
Aspect: Marketing Communications		
PR6 Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship. (Core)	67	
PR7 Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship by type of outcomes. (Additional)	67	
Aspect: Customer Privacy		
PR8 Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data. (Additional)	67	
Aspect: Compliance		
PR9 Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services. (Core)	67	



*Sector supplement in final version

Financial services: social performance indicators

Source: Global reporting initiative financial services sector supplement: social performance, November 2002.

SOCIAL PERFORMANCE INDICATORS (SPIs)	Page No.	Reason for omission
Corporate Social Responsibility (CSR) Management		
Management System		
CSR1 CSR Policy: Description of social elements of the CSR policy, including corporate definition of CSR.	5	
CSR2 CSR Organisation: Description of the structure and relevant CSR responsibilities, including explanation of the installed procedures.	11	
CSR3 CSR Audits: Number of audits and auditor hours.	9	
Sensitive Issues		
CSR4 Management of Sensitive Issues: Description of the procedures for handling issues sensitive to stakeholders and responsiveness.	24	
Compliance		
CSR5 Non-Compliance: Number of non-compliance incidents with any law or regulatory code of conduct.	61	
Participation		
CSR6 Stakeholder Dialogue: Description of stakeholder dialogue and involvement procedures.	24	
Internal Social Performance		
Policy		
INT1 Internal CSR Policy: Description of social responsibility issues covered in the company's human resources policies.	5	
Employment and Social Protection		
INT2 Staff Turnover and Job Creation	50	
INT3 Employee Satisfaction: Employee satisfaction, based on survey results, covering: <ul style="list-style-type: none"> • job security • remuneration & benefits • work/life-balance (including work pressure and stress) • training & development • internal communication culture • company's social performance towards society. 	24	
Compensation		
INT4 Senior Management Remuneration: Remuneration of senior management and board of directors. Includes all compensation	17	
INT5 Bonuses Fostering Sustainable Success: Bonuses that are not oriented purely towards short term financial success, but which contain additional sustainability elements.	17	
Equal Opportunity		
INT6 Female-Male Salary Ratio: Ratio of female to male salaries including bonuses, etc. per hierarchy level.	57	
INT7 Employee Profile: Employee profile per hierarchy level and country according to: <ul style="list-style-type: none"> • gender • ethnicity (for countries where this issue is of high relevance) • disability 	56	Australian Ethical currently only collects data on the gender breakdown of employee groups. The company is looking at reporting additional diversity indicators in 2006-07.
Performance to Society		
Contributions		
SOC1 Charitable Contributions: Contributions to charitable causes, community investments and commercial sponsorships.	32	
Economic Value Creation		
SOC2 Economic Value Added: 'Value added' expresses the economic value created by a company's activities.	-	Australian Ethical was not able to collect this information for the 2005-06 report. The company aims to include this indicator in the future.

<u>Suppliers</u>		
<u>Performance of Suppliers</u>		
SUP1 Screening of Major Suppliers: Policy and procedures to screen suppliers' social performance.	-	Australian Ethical currently does not screen major suppliers.
<u>Performance towards Suppliers</u>		
SUP2 Supplier Satisfaction: Supplier satisfaction with e.g., prompt payment, prices and treatment.	-	Australian Ethical currently does not monitor supplier satisfaction although there are no recorded complaints from suppliers.
<u>Asset Management</u>		
<u>Policy</u>		
AM1 Asset Management Policy (socially relevant elements): Social criteria applied by the reporting organisation in Asset Management.	61	
<u>Fostering Social Capital</u>		
AM2 Assets under Management with High Social Benefit: Provision of tailored and innovative products and services applying special positive ethical/sustainability criteria.	61	
AM3 SRI Oriented Shareholder Activity: Description of activities with companies invested in, where CSR issues either are raised in communications with board and management or explicitly considered when exercising shareholder rights.	61	

Financial services: environmental performance indicators

Source: Global reporting initiative financial services sector supplement: environmental performance, March 2005.

ENVIRONMENTAL PERFORMANCE INDICATORS (EPis)	Page No.	Reason for omission
F1 Description of environmental policies applied to core business lines.	5	
F2 Description of process(es) for assessing and screening environmental risks in core business lines.	61	
F3 State the threshold(s) at which environmental risk assessment procedures are applied to each core business line.	61	
F4 Description of processes for monitoring clients' implementation of and compliance with environmental aspects raised in risk assessment process(es).	61	
F5 Description of process(es) for improving staff competency in addressing environmental risks and opportunities.	61	
F6 Number and frequency of audits that include the examination of environmental risk systems and procedures related to core business lines.	61	
F7 Description of interactions with clients/investee companies/business partners regarding environmental risks and opportunities.	61	
F8 Percentage and number of companies held in the institution's portfolio with which the reporting organisation has engaged on environmental issues.	61	
F9 Percentage of assets subjected to positive, negative and best-in-class environmental screening.	61	
F10 Description of voting policy on environmental issues for shares over which the reporting organisation holds the right to vote shares or advise on voting.	65	
F11 Percentage of assets under management where the reporting organisation holds the right to vote shares or advise on voting.	65	
F12 Total monetary value of specific environmental products and services broken down according to the core business lines.	29	
F13 Value of portfolio for each core business line broken down by specific region and by sector.	61	

Glossary

Abbreviation	Expanded name	Definition
FTE	full-time equivalent	Term used to express full-time and part-time staff on an equivalent full-time basis.
GRI	Global Reporting Initiative	This promotes international harmonisation in the reporting of relevant and credible corporate environmental, social and economic performance information to enhance responsible decision-making.
J	Joule	Unit of energy.
kl	Kilolitre	1000 litres.
KWh	Kilowatt-hour	Measure of electrical energy equivalent to a power consumption of 1000 watts (1000 joules/second) for one hour. Note: 1 kWh = 3.6 MJ.
MJ	Mega joule	1 000 000 joules.
W	Watt	Unit of power, equivalent to one joule per second.

References

Association for Sustainable & Responsible Investment in Asia (ASrIA) 2007, 'Introduction', *The Association for Sustainable & Responsible Investment in Asia web site*: <<http://www.asria.org/asria/intro>> [Accessed 27/02/2007]

Association of Superannuation Funds of Australia Limited (ASFA) 2007, 'What is ASFA?', *Association of Superannuation Funds of Australia Limited web site*: <<http://www.superannuation.asn.au/What-is-ASFA/default.aspx>> [Accessed 27/02/2007]

Australian Employers Network on Disability (AEND) 2007, 'Australian Employers Network on Disability Homepage', *Australian Employers Network on Disability web site*: <<http://www.employersnetworkondisability.com.au/>> [Accessed 27/02/2007]

Carbon Disclosure Project (CDP) 2007, About Us, *Carbon Disclosure Project web site*: <<http://www.cdproject.net/aboutus.asp>> [Accessed 28/02/2007]

Department of the Environment and Heritage 2006, Water Efficiency Guide: Office and Public Buildings, October 2006.
<<http://www.environment.gov.au/settlements/publications/government/pubs/water-efficiency-guide.pdf>> Accessed 13/03/2007]

Ethical Investment Association (EIA) 2007, 'About the EIA', *Ethical Investment Association web site*: <http://www.eia.org.au/html/s12_content/default.asp?tnid=11> [Accessed 27/02/2007]

Flannery, T 2006, ABC Radio National transcript, *Nukes or nature?* Discussion between Peter Mares, Tim Flannery and Ian Lowe, 27 August 2006
<<http://www.abc.net.au/rn/nationalinterest/stories/2006/1723261.htm>> [Accessed 27/02/2007]

Global Reporting Initiative (GRI) 2006; *Global Reporting Initiative, Sustainability Reporting Guidelines*, Version 3.0. <http://www.globalreporting.org/NR/rdonlyres/A1FB5501-B0DE-4B69-A900-27DD8A4C2839/0/G3_GuidelinesENG.pdf> [Accessed 27/02/2007]

Global Reporting Initiative (GRI) 2007, *Global Reporting Initiative web site*
<<http://www.globalreporting.org/Home>> [Accessed 27/02/2007]

Investment and Financial Services Association Limited (IFSA) 2007, 'IFSA Homepage', *Investment and Financial Services Association web site*: <<http://www.ifsa.com.au/>> [Accessed 27/02/2007]

IPS Worldwide 2007, 'About IPS', *IPS Worldwide web site*:
<<http://www.eap.com.au/index.aspx?nodeID=377&langno=1>> [Accessed 27/02/2007]

Principles for Responsible Investment (PRI) 2007, Frequently asked questions, *Principles for Responsible Investment web site*: <<http://www.unpri.org/faqs/>> [Accessed 27/02/2007]

Suzuki, D. 2006, Address to National Press Club, 18 October 2006, Transcript, p37-38.

World Commission on Environment and Development (WCED) 1987, *Our Common Future*. Oxford: Oxford University Press, 1987, p43.

Australian Ethical Sustainability Report 2006

Feedback form

To assist us in improving our economic, social and environmental reporting, please provide us with your feedback.

I am a (please tick)

- Trust unitholder
 Superannuation member
 Staff member
 Shareholder
 Financial adviser
 Other, please specify _____

Overall you found the:

Content of the report

- very good good fair poor very poor

Format of the report

- very good good fair poor very poor

Amount of information in the report

- very good good fair poor very poor

Report

- very good good fair poor very poor

Which sections did you find most useful and why?

Which (GRI or other) indicators would you like included in future Australian Ethical sustainability reports?

How could we improve the report?

Any other comments?

Optional (for future mailing)

Name: _____

Address: _____

Phone: _____

Email: _____

Thank you for your feedback.

Please send this form to:

Philip George

Australian Ethical Investment Ltd

GPO Box 2435

Canberra ACT 2601

Phone: +61 2 6201 1988

Facsimile: +61 2 6201 1987

Email: companysecretary@austethical.com.au

Produced by

cær

PO Box 229
Belconnen ACT 2616

Ph: +61 2 6201 1900
Fax: +61 2 6201 1987

contact@caer.org.au
www.caer.org.au