



Australian Ethical[®] Investment

for Investors, Society and the Environment

Notice of twentieth Annual General Meeting of shareholders

Notice is hereby given that the Annual General Meeting of the shareholders of Australian Ethical Investment Ltd ("the Company") will be held at University of Canberra, UCU Conference Centre, Building 1 Level C, Clive Price Suite, University Drive, Bruce ACT 2617 on Thursday 23 November 2006, commencing at 7.30pm.

Business:

Seven motions will be proposed as ordinary resolutions.

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

1. Accounts and reports

To receive and consider the financial statements of the Company and its controlled entity for the year ended 30 June 2006 and the related Directors' Report, Directors' Declaration and Auditor's Report.

2. Remuneration report and the status of employees

To consider and if thought fit pass the following resolutions:

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

3. Directors

- (a) **That** Mr Howard Pender who retires by rotation in accordance with the Company's Constitution and, being eligible, offers himself for re-election, be re-elected as a director of the Company.
- (b) **That** Ms Caroline Le Couteur who retires by rotation in accordance with the Company's Constitution and, being eligible, offers herself for re-election, be re-elected as a director of the Company.
- (c) **That** Ms Pauline Vamos, a director appointed on 1 July 2006 and, being eligible, offers herself for election, be elected as a director of the Company.

4. Remuneration of Directors

To consider and if thought fit pass the following resolution:

That for the purposes of clause 11.6 of the Constitution and listing rule 10.17, the Company reward persons who undertake duties and responsibilities of being a Director in 2006-2007 (including attendance at meetings of the Board of Directors and its Board Committees) by approving payment of \$150,000 in total plus Superannuation Guarantee contributions or equivalent payments, to be divided among the Directors at their discretion, and that these arrangements be maintained until further considered at an AGM.

5. Executive directors and the employee share ownership plan

To consider and if thought fit pass the following resolution:

That for the purposes of ASX listing rule 10.14, executive directors of the Company be permitted to participate fully in the option and bonus share schemes of the Company for three years from the date of the Annual General Meeting.

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

By order of the Board

Philip George

Company Secretary

Voting Restrictions

Voting Exclusion Statements

Resolution 4

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

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

Resolution 5

The Company will disregard any votes cast on resolution 5 by:

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

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

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

Additional information

Proxies

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

To appoint a proxy, ordinary shareholders should complete the proxy form distributed with this notice of meeting. The proxy form must be deposited at the share registry, Registries Limited, or at the Company's Registered Office not later than 48 hours before the commencement of the meeting (i.e. by 7.30 pm on Tuesday, 21 November 2006). Any proxy received after that time will not be valid for the scheduled meeting.

Proxies can be delivered as follows:

	Share Registry	Company
By hand	Registries Limited Level 2, 28 Margaret Street Sydney NSW 2000	Australian Ethical Investment Ltd Suite 66, Canberra Business Centre, Bradfield St, Downer ACT 2602
By mail	Registries Limited	Australian Ethical Investment Ltd

	Share Registry	Company
	PO Box R67, Royal Exchange Sydney NSW 1223	GPO Box 2435 Canberra ACT 2601
By facsimile	02 9279 0664	02 6201 1987

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

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

Voting entitlements

The Directors have determined that the shareholding of each shareholder for the purposes of ascertaining the voting entitlements for the Annual General Meeting will be as it appears in the share register at 7.30pm on Tuesday 21 November 2006 (Section 1074E and Regulation 7.11.37 Corporations Act 2001, ASTC Settlement Rules, Section 5.6).

Written questions

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

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

The question form should be deposited at the Company’s Registered Office not later than five business days prior to the meeting - by 7.30 pm on Thursday 16 November 2006. Written questions can be delivered to the Registered Office by hand, posted to Australian Ethical Investment Ltd, GPO Box 2435, Canberra ACT 2601 or faxed to 02 6201 1987. If posting your question form, please ensure that you mail it sufficiently in advance so that it arrives at the Registered Office by the required time. Please include the shareholder name on the form exactly as it appears on your holding certificate.

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

Directions to the venue

Maps of the University of Canberra and available from the university website - see <http://www.canberra.edu.au/university/maps>.

Explanatory material for AGM Agenda items

1. Accounts and Reports

The financial statements of the Company for the 2005/2006 financial year have been lodged with the Australian Stock Exchange and with the Australian Securities and Investments Commission in accordance with statutory lodgement timetables and requirements. The financial statements are tabled at the Annual General Meeting to be received and considered by shareholders. No formal resolution on the financial statements and reports is required.

2. Remuneration report and the status of employees

Remuneration Report

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

Status of employees

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

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

In particular, the Company has the following employment conditions:

- flexibility in working hours, subject to business needs;
- six weeks paid maternity and adoption leave for staff who have a minimum of 12 months continuous service;
- up to three days paid compassionate leave as often as required;
- allowing sick leave to be used to care for sick relatives;
- paternity leave;
- up to three hours paid study leave per week, plus up to two days paid study leave per year to prepare for examinations or to finalise course work;
- three days additional leave between Christmas and New Year;
- the choice of being paid monthly or fortnightly;
- a subsidised personal development program; and
- access for staff and their families to a counselling service.

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

3. Election of directors

In accordance with the Constitution, two directors retire by rotation being Mr Howard Pender and Ms Caroline Le Couteur.

Details of the qualifications and experience of the directors seeking re-election are provided in the Annual Report.

The Board **supports** the re-election of Mr Howard Pender and Ms Caroline Le Couteur.

Effective 1 July 2006, the Board appointed Ms Pauline Vamos as a director under Rule 11.4 of the Constitution. Under Rule 11.4 of the Constitution any director so appointed holds office only until the next following general meeting and is then eligible for election. Ms Vamos offers herself for election. Details of the qualifications and experience of Ms Vamos are provided in the Annual Report.

The Board **supports** the election of Ms Pauline Vamos.

4. Remuneration of directors

The directors propose an increase in remuneration of \$30,000 (plus superannuation guarantee contributions) from an aggregate amount of \$120,000 per year (plus SGC) to an aggregate amount of \$150,000 per year (plus SGC).

At the 2005 AGM, shareholders approved director's remuneration of an aggregate amount of \$120,000 per year (plus SGC). The actual amount spent on director's fees in the 2005/06 financial year was approximately \$103,000, \$17,000 less than the amount approved. The shortfall was largely due to the resignation of Ray De Lucia in October 2005, and the directors decided not to redistribute fees that would have otherwise have been paid to Mr De Lucia.

With the appointment of Pauline Vamos from 1 July 2006, the board intends that directors (other than the chair) will for the 2006/2007 year receive director's fees for work performed for Australian Ethical Investment Limited of \$20,000 each plus SGC or equivalent. For the 2006/2007 year, the Chair will receive \$35,000 plus SGC or equivalent.

In the board's view, payment of these amounts will align director's fees to current market levels (relative to the time commitment required) comparative to other companies with similar characteristics.

The aggregate amount sought also leaves room for the appointment of additional directors to the board.

5. Executive directors and the employee share ownership plan

This resolution is proposed for the purposes of ASX Listing Rule 10.14 which requires shareholder approval before a director of the Company may participate in the Company's employee share ownership plan.

The Company's employee share ownership plan was approved at last year's AGM.

The terms and conditions of the employee share ownership plan are set out below.

This resolution will allow the current executive directors of the Company to participate in the arrangements for the employee share ownership plan. The current executive directors are Caroline Le Couteur, Howard Pender, and James Thier. The resolution will not apply to non-executive directors.

Any new executive directors that may be appointed to the Board will not participate until specific shareholder approval is obtained under the Listing Rule 10.14.

If this resolution is passed, it will be effective for a period of three years from the date of this AGM.

The maximum number of shares that may issued in any one year is determined by the conditions set out in the Company's Constitution relating to the payment of employee bonuses and the terms and conditions of the employee share ownership plan.

All permanent staff are eligible to participate in the annual staff bonus. Under the Company's Constitution, before the directors recommend any dividend to be paid out of profits of any one year, they must pay a bonus to current employees which is set by reference to the profit of the company for that year. The bonus is set at the discretion of the directors, but is to be no more than 30 percent (30%) of what the profit for that year would have been had not the bonus been deducted. Each full time staff member (including executive directors) receives the same bonus amount and part-time staff (or those not employed full-time through the full year) receive a pro-rata amount. The company's constitution provides that the bonus can be (and often has been) satisfied by the issue of shares, under the employee share ownership plan.

By way of example, for the 2006 financial year, the board approved an aggregate staff bonus of \$213,234 which was approximately 13.5% of what the profit would have been had not the bonus been deducted. Each full-time equivalent staff member (over the 2005-2006 year) received a bonus amount of \$5,500. Each staff member was then able to choose whether to take the bonus in cash or in ordinary shares under the employee share ownership plan. A total of 703 shares were issued in lieu of payment of a cash bonus in 2006. The issue price was \$29.55.

The maximum number of options is also determined by the terms and conditions of the employee share ownership plan. Executive directors will be treated in the same way as all other company staff when their entitlements (if any) under the employee share ownership plan are determined.

The issue price for any shares issued under the employee share ownership plan is set out in the terms and conditions below. Options will be granted for nil consideration. The exercise price of the options will be determined as set out in the terms and conditions below.

Details of the shares and options issued to executive directors under these arrangements will be published in the Company's Annual Report. The Annual Report will contain a statement that shareholder approval for the issue of the relevant shares and options was obtained under ASX Listing Rule 10.14.

ASX Listing Rule 10.14 approval for the issue of shares and options to executive directors under an employee share ownership plan was originally given at the AGM held in November 2003. The following number of shares and options have been issued to executive directors since the approval in November 2003.

Name		Number of securities issued
Howard Pender	Ordinary shares issued 2003	48
	Ordinary shares issued 2004	83
	Ordinary shares issued 2005	71
	Ordinary shares issued 2006	0
	Options issued 2003	857
	Options issued 2004	861
	Options issued 2005	931
	Options issued 2006	1469
Alistair Clark	Ordinary shares issued 2003	-
	Options issued 2003	1959
Trevor Lee	Ordinary shares issued 2003	15
	Ordinary shares issued 2004	0
	Options issued 2003	246
	Options issued 2004	0
Caroline Le Couteur	Ordinary shares issued 2003	136
	Ordinary shares issued 2004	236
	Ordinary shares issued 2005	190
	Ordinary shares issued 2006	0
	Options issued 2003	2646
	Options issued 2004	2513
	Options issued 2005	2243
	Options issued 2006	1910
James Thier	Ordinary shares issued 2003	109
	Ordinary shares issued 2004	68
	Ordinary shares issued 2005	44
	Ordinary shares issued 2006	127
	Options issued 2003	2074
	Options issued 2004	2058
	Options issued 2005	1800
	Options issued 2006	1432

The total securities issued to executive directors and the issue and exercise prices of the securities are as follows:

Securities	Total	Issue price	Option exercise price
Ordinary shares issued 2003	308	\$12.83	-
Ordinary shares issued 2004	387	\$14.80	-
Ordinary shares issued 2005	305	\$22.56	-
Ordinary shares issued 2006	127	\$29.55	-
Options issued 2003	7782	Nil	\$14.11
Options issued 2004	5432	Nil	\$16.28
Options issued 2005	4974	Nil	\$24.82
Options issued 2006	4811	Nil	\$32.50

The terms and conditions of the employee share ownership plan ('ESOP') are set out below:

Options scheme component of the ESOP

- The scheme will be open to non-probationary staff and, at the discretion of the Board, executive directors ('eligible staff').
- The Company will offer eligible staff options totalling 5% of the Company's issued share capital each year.
- Options will be offered for nil consideration.
- The number of options offered to eligible staff will be determined on the basis of each staff member's remuneration. Individual staff members will be advised of their specific entitlement in application material.
- The exercise price of the options will be the current market value of the underlying shares, as determined by the Board for the share component of the ESOP scheme (see below), plus 10%.
- The options will not be exercisable for three years from their date of issue.
- Once an employee is entitled to exercise their options, they must do so within three months of becoming so eligible otherwise the options will lapse.
- Options issued under these arrangements lapse if an option holder is no longer an employee of the Company for any reason. The Board may, however, in its absolute discretion, allow a previous employee to retain their options under the scheme where the Board considers that to do otherwise would be substantially unfair to the employee, given the circumstances that surround their cessation of employment.
- Options issued under these arrangements are not transferable, except that during the exercise period they may be transferred from the employee to another party. That party is entitled to exercise any option so transferred (in accordance with these terms and conditions) but cannot further transfer the options to any other party or otherwise deal with the options other than by way of exercising them.
- Shares acquired upon the exercise of the options will be ordinary shares, without any further restrictions or conditions.

In addition to the above terms, where the Company remains on the official list of the Australian Stock Exchange ('ASX'), the options shall have following additional terms:

- If at any time the Company undergoes a reorganisation of capital, then notwithstanding anything contained in these terms, the terms of the options and the rights of the option holder will be changed in a manner fair and reasonable to the parties and to the extent necessary to comply with the ASX Listing Rules in force at the time of that reorganisation.
- No option shall confer on its holder the right to participate in a new issue of securities made by the Company.
- If the Company makes a bonus issue of ordinary shares to holders of ordinary shares (other than an issue in lieu or satisfaction of dividends or by way of dividend reinvestment) the number of ordinary shares over which the option is exercisable may be increased by the number of ordinary shares which the option holder would have received if the option had been exercised before the record date for the bonus issue.

- If there is a pro rata issue (except a bonus issue) to the holders of ordinary shares, the exercise price of an option may be reduced according to the formula set out in ASX Listing Rule 6.22.2.

Share scheme component of the ESOP

If an annual staff bonus is paid, an employee may choose to take such bonus as shares under the ESOP.

The 'effective cost to bonus' for these shares (the issue price) is the weighted average sale price of ordinary shares over the five ASX trading days immediately preceding the allocation date. If the shares of the company are not traded on the ASX during any of the five trading days immediately prior to the issue date the price will be the last sale price, unless this is considered inappropriate by the Board.

Shares issued under the share scheme component of the ESOP are ordinary shares and entitle the holder to normal voting and dividend rights. However, shares issued under the ESOP may not be sold or transferred for a period of 3 years, except that if an employee leaves the company's employment during that 3 year period, the restrictions on shares held by that employee are lifted.