

Annual report to members

year ended 30 June 2005

This annual report provides fund information for members of the Australian Ethical Superannuation Fund. The last financial year saw the fund grow to over \$155 million under management, comprising over 8000 individual members. Our performance to 30 June 2005 is presented in the table below.

PERFORMANCE

| Strategy | Strategy size \$m | Accumulation & rollover strategies | | | | | Return since inception (1998) % pa compound |
|-----------------------------|----------------------|------------------------------------|---------------------|---------------------|---------------------|---------------------|---|
| | | 1 year return, % | 2 year return, % | 3 year return, % | 4 year return, % | 5 year return, % | |
| Income | 5.6 | 4.2 | 4.4 | 4.3 | 4.2 | 4.1 | 3.8 |
| Balanced | 63.8 | 13.8 | 12.8 | 10.7 | 8.1 | 9.0 | 9.1 |
| Large Companies Share | 29.1 | 22.1 | 20.3 | 14.6 | 8.3 | 8.2 | 13.2 |
| Equities | 45.2 | 18.2 | 15.6 | 11.8 | 5.8 | 6.5 | 10.8 |

Past performance is not a reliable indicator of future performance.

Performance figures are calculated using exit prices. Performance figures take into account ongoing management fees and fund expenses. Performance figures are calculated taking into account taxation on fund earnings and capital gains. **Neither the return of capital nor the performance of the fund is guaranteed.** Figures for periods of greater than one year are on a per annum compound basis. The latest available performance figures can be obtained from our website www.austethical.com.au or by calling **1800 021 227**.

AMENDED TRUST DEED

During the year the trustee commenced work on its licence to become a registered superannuation entity. While doing so the trustee felt it was timely to make a number of minor amendments to the trust deed. These amendments were required to clarify the operation of the deed in some areas and to provide future scope for the trustee to introduce additional features to the fund if required.

SUPPLEMENTARY PRODUCT

DISCLOSURE STATEMENTS

As a result of legislative requirements, two supplementary product disclosure statements were issued on 30 June and 1 July 2005. A supplementary amendment to Part 1 dealt with the format of fee disclosure and provided an example of fees; a supplementary to Part 3 dealt with the treatment of insurance matters for those employees whose employer chose the Australian Ethical Superannuation fund as the default fund under the federal government's choice of superannuation fund legislation. Both documents are available from our website or can be sent to you if you call Customer Service on **1300 134 337**.

INVESTMENT MANAGER

Australian Ethical Superannuation uses Australian Ethical Investment Ltd to manage its funds. Throughout the relevant period, the superannuation investment strategies invested funds into the analogous Australian Ethical Investment trusts. A commentary on the four investment strategies appears below. Investments in the Australian Ethical Investment Balanced, Large Companies Share and Equities Trusts as at 30 June 2005 exceeded 5 per cent of the total assets of the fund.

Fund strategies update to 30 June 2005

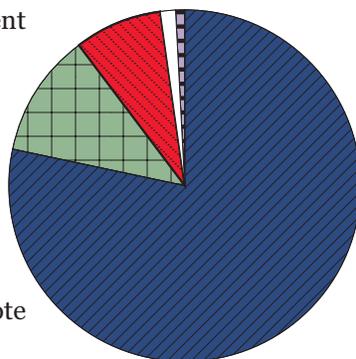
AUSTRALIAN ETHICAL EQUITIES STRATEGY

The Equities Strategy focuses on taking long-term holdings in companies which meet the Australian Ethical Charter, based on an assessment of their fundamental financial value. The underlying Equities Trust invests in companies of all sizes, but includes investments in smaller companies which are sometimes overlooked by larger fund managers. The Equities Strategy seeks high total returns over the long term – mainly through capital growth.

Investment returns for the Equities Strategy were 18.2 per cent in the year to June 2005. This was below the benchmark index – the S&P/ASX300 – which rose 26 per cent. Two major structural themes impacted, with the index driven by the strong performances of the resources sector (in turn largely due to oil prices) and of relatively larger stocks. The Australian Ethical Charter precludes investment in many mining stocks (direct environmental damage and/or extraction of relatively inefficient fossil fuels). It also drives the underlying Equities Trust towards smaller industrial stocks, which did not perform as well as mid-cap stocks over 2004–05. The 18.2 per cent return is, however, above the strategy's long-term average.

Among the domestic stocks in the Equities Trust, best performers included renewable energy companies Pacific Hydro and Energy Developments, hearing technology company Cochlear, Macquarie Communications Infrastructure Group (which owns the broadcasting towers used by the ABC and SBS), Waste Management New Zealand, Sonic Healthcare and metals recycler Sims Group. Among the international stocks held, the better performers were United States natural and organic foods retailer Whole Foods and Japanese bicycle component manufacturer Shimano.

New stocks added to the Equities Trust portfolio over the year included geothermal energy company Geodynamics, renewable energy company Novera, Ceramic Fuel Cells, Pro-Pac Packaging (a leader in biodegradable packaging) and Codan (communications equipment for use in remote or emergency-stricken areas).



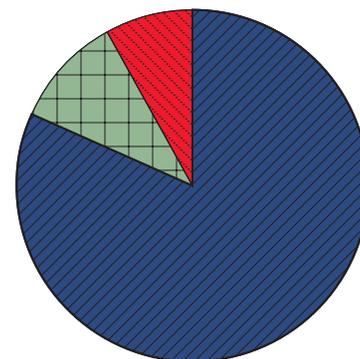
Asset allocation of Australian Ethical Equities Trust which underlies the Equities Strategy

AUSTRALIAN ETHICAL LARGE COMPANIES SHARE STRATEGY

Through the underlying Large Companies Trust, the Large Companies Strategy concentrates on investments in Australian companies within the top 200 by market capitalisation on the Australian Stock Exchange and in international companies of at least equivalent size. It aims to achieve high total returns over the long term – through franked dividends but primarily through capital growth.

The strategy returned 22.1 per cent for the year, slightly below the benchmark index, the S&P/ASX200 – which rose by 26.4 per cent. Despite being slightly behind benchmark (as with the Equities Strategy, largely due to non-participation in the oil-price-driven mining sector boom), the strategy ranks at the top of its ASSIRT peer group of multisector equity funds. In addition to having higher returns than its peer group, the Large Companies Strategy has exhibited a lower standard deviation of returns than other funds in this group, indicating that the performance has not been achieved through excessive risk-taking.

Best performed stocks were similar to those in the Equities Trust – with good returns also from blood products company CSL and condom and surgical glove manufacturer Ansell.



Asset allocation of Australian Ethical Large Companies Share Trust which underlies the Large Companies Share Strategy

Key to pie charts

 Property

 Interest-bearing investments

 Equity: Australia and NZ

 Equity: International

 Units in Australian Ethical Income Trust

 Debt equity instruments

 Secured private loans

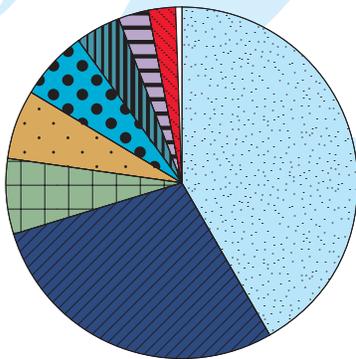
 Cash

 Other

AUSTRALIAN ETHICAL BALANCED STRATEGY

Through the underlying Balanced Trust, the Balanced Strategy concentrates on a wide range of asset types (loans, shares, property and interest-bearing securities), with about 50 per cent in growth assets (shares and property). Attractive total returns (mostly franked income and capital growth) are sought over a medium-term investment horizon. The underlying mix of assets, including yield assets as well as growth assets, tends to make this strategy's volatility of returns lower than that of the preceding strategies.

The Balanced Strategy returned 13.8 per cent over the financial year 2004–05 – well ahead of its benchmark, the ASSIRT Super Multisector 60, an index of other funds with reasonably like asset allocations, which rose by 8.7 per cent. The Balanced Strategy is also well ahead of its benchmark over five years and has consistently been one of the higher-ranked funds in its category based on performance. The Australian Ethical Balanced Trust, in which the Balanced Strategy invests, won the Standard & Poor's Fund of the Year award in the Balanced Fund – Neutral category for 2005.



Asset allocation of Australian Ethical Balanced Trust which underlies the Balanced Strategy

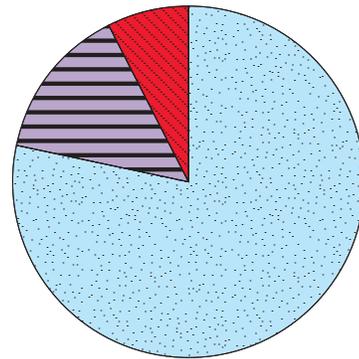
AUSTRALIAN ETHICAL INCOME STRATEGY

The Income Strategy is the most conservative of the four strategies, emphasising capital stability. The underlying Income Trust has investments in a portfolio of loans which are well secured and of a high ethical calibre, as well as other interest-bearing securities – for the most part, rated investment-grade credits.

The underlying trust portfolio supports a range of ethical activities such as alternative independent schools, an alternative book shop, a co-op and sustainable farming activities.

The strategy recorded its sixth consecutive year of stable returns at 4.2 per cent and continues to have an extremely low measured level of risk (standard deviation of returns).

The strategy continues to stay very short in terms of interest rate risk – that is, the interest rate of securities are reset to market at short intervals – any rises in official interest rates tend to flow through to the strategy's returns.



Asset allocation of Australian Ethical Income Trust which underlies the Income Strategy

ACCOUNTS

Australian Ethical Superannuation Fund financial statements for the year to 30 June 2005 are shown in abridged form below. A copy of the full accounts and the auditor's report is available to members upon request. Please call **1300 134 337** if you would like a copy mailed to you.

Australian Ethical Superannuation Fund

OPERATING STATEMENT

for the period ended 30 June 2005

| | 2005 \$ | 2004 \$ |
|---|-------------------|-------------------|
| Investment revenue | | |
| Interest | 87,038 | 75,866 |
| Trust distributions | 21,908,597 | 3,885,515 |
| Changes in net market values | (504,439) | 8,832,814 |
| Direct investment expense | (7,155) | (6,768) |
| Net investment revenue | <u>21,484,041</u> | <u>12,787,427</u> |
| | | |
| Contributions revenue | | |
| Employer contributions | 11,253,666 | 9,911,409 |
| Members' contributions | 8,396,690 | 3,519,130 |
| Transfers in | 13,836,931 | 11,736,343 |
| Total contribution revenue | <u>33,487,287</u> | <u>25,166,882</u> |
| | | |
| Other revenue | | |
| Management fee rebate | 2,503,519 | 1,774,881 |
| Total revenue | <u>57,474,847</u> | <u>39,729,190</u> |
| | | |
| Less | | |
| General administration expenses | 3,708,976 | 2,801,315 |
| Surcharge tax expense | 241,764 | 554,619 |
| Total expenses | <u>3,950,740</u> | <u>3,355,934</u> |
| | | |
| Benefits accrued before income tax | 53,524,107 | 36,373,256 |
| Less income tax expense | 3,321,477 | 2,497,356 |
| Benefits accrued as a result of operations | <u>50,202,630</u> | <u>33,875,900</u> |

Australian Ethical Superannuation Fund

STATEMENT OF FINANCIAL POSITION

for the period ended 30 June 2005

| | 2005 \$ | 2004 \$ |
|--|--------------------|-------------|
| Investments | | |
| Units in Australian Ethical Investment unit trusts | 137,248,149 | 108,981,507 |
| | 137,248,149 | 108,981,507 |
| Other assets | | |
| Cash at bank | 1,575,961 | 1,943,998 |
| Other receivables | 20,600,117 | 3,260,071 |
| Deferred tax asset | - | - |
| | 22,176,078 | 5,204,069 |
| Total assets | 159,424,227 | 114,185,576 |
| Less liabilities: | | |
| Accounts payable | 395,635 | 475,189 |
| Current tax liability | 2,774,369 | 588,574 |
| Deferred tax liability | 354,292 | 952,381 |
| | 3,524,296 | 2,016,144 |
| Net assets available to pay benefits | 155,899,931 | 112,169,432 |
| Liability for accrued benefits | | |
| Allocated to members' accounts | 155,899,931 | 112,169,432 |
| Unallocated to members' accounts | - | - |
| | 155,899,931 | 112,169,432 |
| Total | 155,899,931 | 112,169,432 |

Things you should know

INDEMNITY INSURANCE

The trustee holds indemnity insurance to protect it and the fund from losses arising from claims against it. The insurance has been provided by QBE Insurance (Australia) Ltd throughout the 2004–05 financial year.

SUPERANNUATION SURCHARGE TAX

The federal government recently announced the abolition of the superannuation surcharge tax for contributions received from 1 July 2005. For the 2004–05 financial year, however, the surcharge was payable by

members with adjusted taxable incomes over \$99,710. This tax, where applicable, was paid by the individual member from his or her individual member account.

DERIVATIVES

The Australian Ethical Superannuation fund does not use derivatives. It does invest through collective investment funds managed by Australian Ethical Investment Ltd that have small use of hedging derivatives, for managing currency exposure to international equities.



COMPLAINTS RESOLUTION

If you have any inquiries or complaints you should address them in the first instance to the trustee on **1300 134 337** or by writing to the Complaints Officer at the Canberra address below.

If you are dissatisfied with a decision of the trustee relating to you as a member, you may be able to lodge a complaint about the decision with the Superannuation Complaints Tribunal. The tribunal's role is to act as conciliator on such matters and, where appropriate, make determinations (including determinations overturning decisions by trustees). The Superannuation Complaints Tribunal may be contacted on **1300 780 808**.

The Australian Taxation Office also has a superannuation hotline and can be contacted on **13 10 20** in relation to superannuation matters.

ELIGIBLE ROLLOVER FUND

An eligible rollover fund is a fund established under superannuation law, which accepts benefits of members who cannot be located. Australian Ethical Superannuation has chosen the Australian Eligible Rollover Fund as its eligible rollover fund. We may transfer your benefit if your account balance is less than \$1000 and we have been unable to contact you, if two written communications to you are returned unclaimed or if we have never had an address for you. If your benefit is transferred to Australian Ethical Superannuation's nominated eligible rollover fund, you may require the following contact details:

Australian Eligible Rollover Fund
Locked Bag 5429
PARRAMATTA NSW 2124

Phone: **1800 677 424**

CREDITING RATE POLICY

Australian Ethical Superannuation uses unit prices for its investment options. Once a week a unit price is struck for each investment strategy, based on the movement in the underlying investment trusts' unit prices, and members' funds are updated in line with the movement in their investment strategy unit price. In addition, twice a year in January and July, the investment strategies receive distributions from the underlying investment trusts and the members' funds are credited with their share of the distributions for the relevant investment strategies.

CONTACT AUSTRALIAN ETHICAL SUPERANNUATION

Australian Ethical Superannuation Pty Ltd (ABN 43 079 259 733) is the trustee of the fund and was trustee of the fund throughout the relevant period. Please direct any enquiries to:

Canberra Office:

Australian Ethical Superannuation
GPO Box 2435
CANBERRA ACT 2601

Phone: 1300 134 337
Fax: (02) 6201 1987
Email: aes@austethical.com.au

www.austethical.com.au

Administration Office:

GPO Box 529
HOBART TAS 7001

The information contained in this report is general information only. It does not take into account your individual objectives, financial situation or needs. Before making any investment decisions you should assess whether the information is appropriate to your circumstances.

Performance rankings throughout this document are calculated by Australian Ethical Investment based on information from ASSIRT Research Pty Ltd. Rankings are based only on financial performance from the information supplied to ASSIRT by fund managers. Note: ASSIRT does not guarantee the accuracy of the information.

Interests in the superannuation fund are offered by Australian Ethical Investment Ltd ABN 47 003 188 930, AFSL 229949 and issued by the trustee of the fund, Australian Ethical Superannuation Pty Ltd ABN 43 079 259 733. A product disclosure statement is available from our website **www.austethical.com.au** or by calling **1300 134 337** and should be considered before deciding whether to acquire, or to continue to hold, interests in the fund.

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