

# australian**ethical** SHAREHOLDER NEWSLETTER

Year ended 30 June 2010



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investment + superannuation

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# Chair and Managing Director's report



Naomi Edwards - Chair

Dear Shareholder

The year under review has been characterised by an improved but still volatile operating environment in world markets and the finalisation of a number of regulatory reviews into financial services which will lead to quite a changed landscape.

## Financial results and dividends

Our net profit after tax was \$1,022,555 down by 15% from the previous year. However, after taking into account some one-off adjustments (explained in detail in the annual accounts) our underlying net profit increased by 51%. Funds under management were \$613.8 million, an increase of 12% over the previous year.

The directors declared a total dividend of \$2.00 for the year, an increase of 36% over the previous year. This comprised an interim dividend of \$0.50 plus a final standard dividend of \$0.50. A special dividend of \$1.00 was declared after taking into account the capital needs of the business and other factors.

A detailed explanation of the results is available in the full company annual report on our website.

## Community grants

The company's constitution requires 10% of operating profit (after notional tax) be provisioned for charitable and conservation purposes. In 2010 grants of \$124,941 will be made. This sees our total contribution over the years of our community grants surpass \$1 million. We are proud of this important milestone in our commitment to the community.



Phillip Vernon - Managing Director

## Operating environment

Our revenues are reliant on the state of the share markets. Over the past year the market has risen from a low in March 2009 to reach a high in March 2010. This has had a positive impact on our revenues and has led to our underlying profits increasing significantly compared to the previous year. However, the volatile state of the markets over the past few years have caused many investors to avoid share market investments altogether.

## Performance of our funds

Our investment funds have continued to perform well over the longer-term. Our Smaller Companies Trust achieved 4.9% in the past year compared to 10.3% achieved by its benchmark (the S&P/ASX Small Industrials); however over three years it outperformed by 14.4% (its return was negative 3.7% compared to negative 18.1% for the benchmark).

The nature of our investment style is such that our funds are less volatile than the market as a whole and will tend not to fall as far when the market is going down, but also will not necessarily perform as well when the market goes up. We remain confident that our investment processes developed over more than 22 years will continue to provide competitive long-term investment performance to our clients.

In September 2009 our Smaller Companies Trust was upgraded by Lonsec (one of the leading managed funds rating agencies) from *Investment Grade* to *Recommended*. This confirmed the steady progress we are making in strengthening our investment processes and performance.

## Product development

During the year we made some changes to our product suite to better reflect the needs of our clients.

### Climate Advocacy Fund

The new Climate Advocacy Fund broadens our product range with a fund structured to engage with companies and put resolutions at annual general meetings. The fund aims to encourage better climate performance, especially around carbon disclosure. As an index fund, it is also an alternative to the active management of our existing product range.

### Global Smart Energy

We also re-positioned our International Equities Trust with the theme global **smart**energy. The International Equities Trust now targets investment in companies involved in global sustainable energy supply and demand. This dual focus on both the supply and demand side of energy use will allow it to benefit from the opportunities presented in combating and managing the impact of climate change.

### Property Trust

The Property Trust was launched in response to demand from investors looking for an opportunity to invest in sustainable property and an alternative to the volatility of the share market. The fund's foundation investment is the 64 Allara Street commercial building in the Canberra central business district.

### Superannuation options

We have restructured our superannuation options to make the choices for members simpler and more aligned with offerings in the market. Two new options were introduced - the Conservative and the Climate Advocacy.

## Other initiatives

### Improved client service

We have strong loyalty amongst our clients and a strong affinity with our network of advisers who support us. Our clients and advisers expect more from us than a purely transactional experience. During the year we embarked on a program to significantly improve our capacity to provide a better service experience.

### New portfolio management system

A project to replace our existing portfolio management system is scheduled for completion by the end of this calendar year and is aimed at reducing risk while improving efficiency and functionality.

## Outlook, strategy and focus

The investment market outlook continues to be extremely uncertain. However, we believe that our investment style offers our investors consistent returns over the long-term with less volatility than the broader investment market. We have a firm belief that our style 'suits the times.'

Within the socially responsible investment sector, we have a strong reputation and brand built on our pioneering heritage and strong conviction to selecting ethical investments. As mainstream organisations increasingly compete with us in this sector, for our clients we continue to stand apart in commitment to sustainable investment.

Our key areas of focus over the coming year are:

- investment in and continued improvement of our client service experience to encourage our clients to remain with us over the full cycle of their investing life
- a continued focus of marketing effort on the retail direct channel in which we have a distinct point of difference amongst our core client base, and to increase the number of default employers contributing to our super fund
- a continued development of our relationship with, and products for, the adviser market to take advantage of opportunities where advisers are repositioning their businesses to respond to increasing demand for true-to-label responsible investments.

We thank all of our shareholders for your continued support and look forward to the coming year with strong focus and optimism.



Naomi Edwards  
Chair



Phillip Vernon  
Managing Director

# Financial summary to 30 June 2010

as at	30 June 2010	30 June 2009	30 June 2008	30 June 2007
Current assets (\$'000)	6,303	6,369	6,362	5,174
Non-current assets (\$'000)	4,797	4,686	4,790	4,879
Current liabilities (\$'000)	2,946	2,519	2,658	2,293
Non-current liabilities (\$'000)	98	83	113	76
Net assets (\$'000)	8,056	8,453	8,381	7,684

