

# australian**ethical** MANAGED FUNDS – the year in brief

year ended 30 June 2010

*The year in brief* is a summary of information contained in the annual report of the australian**ethical** managed funds. If you would like a copy of the full annual report: download it from [www.australianethical.com.au/annual-reports-managed-funds](http://www.australianethical.com.au/annual-reports-managed-funds) phone **1800 021 227** email [trustadmin@australianethical.com.au](mailto:trustadmin@australianethical.com.au)

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## 2009–10 a year of recovery and uncertainty

The first quarter of 2009–10 saw investment markets across the world continue to rebound from their lows in early March 2009. Following that recovery phase, market conditions reflected high uncertainty about the economic future. The uncertainty remains, with investors and market commentators concerned about the ability of developed economies to grow while carrying large debts.

### Long-term robust returns

The Australian **ethical** funds have all delivered positive returns during 2009–10, although our funds that have high exposure to share markets did not perform as strongly as the main share market benchmarks. This is the flip-side of the comparatively smaller losses experienced by our funds during the global financial crisis. Our long-term returns remain highly competitive with their benchmarks. The Smaller Companies Trust especially has an outstanding record of outperformance, looked at over three, five and ten years or since its inception in September 1994.

### A smart energy future

On climate policy, a lot was promised last year but little delivered. The issue will not go away and our funds remain well positioned for the introduction of carbon pricing or a cap and trade scheme. In January our International Equities Trust was refocused and themed to specialise in global **smart** energy. The theme focuses on investments that either contribute to a sustainable energy supply or to reducing energy demand. In late September this year, the Climate Advocacy Fund plans to lodge climate focussed resolutions, a first in Australia, to be considered at the annual general meetings of four companies.

Looking forward, the outlook for the global economy is widely perceived to be more uncertain than it was before the global financial crisis. We continue to manage your investment using the ethical approach that has served our investors well for the past 24 years.

James Jordan

Chief investment officer



### SMA Solar

Founded in Germany in 1981, the company develops and produces intelligent computer-based control systems for decentralised energy supply. This technology is considered a key component for sustainable energy supply.

Photo courtesy: SMA Solar Technology AG

## Smaller Companies Trust

The Smaller Companies Trust returned 4.9% over the year compared to 10.3% for its benchmark.

The fund gave back a portion of its remarkable 2008–09 outperformance of its benchmark. The 12 month under-performance in 2009–10 was caused by holding relatively defensive shares, especially in healthcare and utilities. The market rewarded cyclical companies that offered better earnings growth.

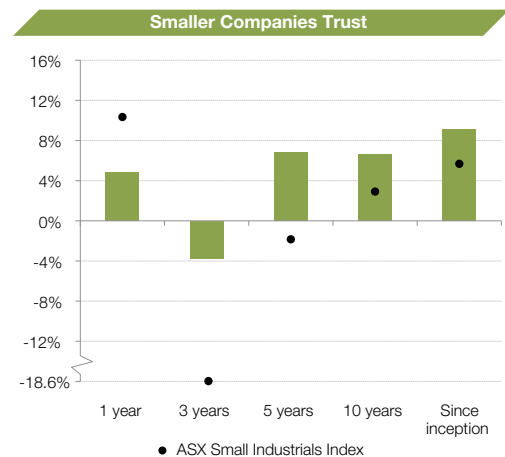
The 2009–10 year can be broken into two contrasting periods. In the September quarter of 2009 investor confidence quickly returned and the benchmark rose 25.9%. The following nine months to 30 June 2010 were less rewarding for all investors; the benchmark fell 12.4% with our fund out-performing the benchmark in this second period.

Shelving and storage company Dexion was the fund's strongest performing share, climbing over 150%, a result of a friendly take-over offer.

Amcom Telecom doubled its share-price, as a result of strong earnings growth from its dark fibre network and its strategic holding in internet service provider iiNet.

We also invest in iiNet directly. The stock climbed nearly 70%, after strong customer growth. iiNet is now the second largest DSL broadband internet service provider in Australia behind Telstra.

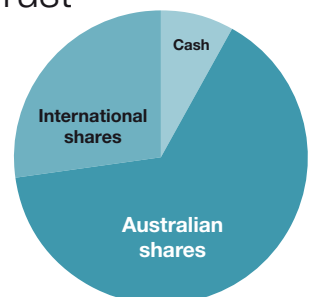
We continue to actively manage the fund, selecting quality companies with robust business models.



## Larger Companies Trust

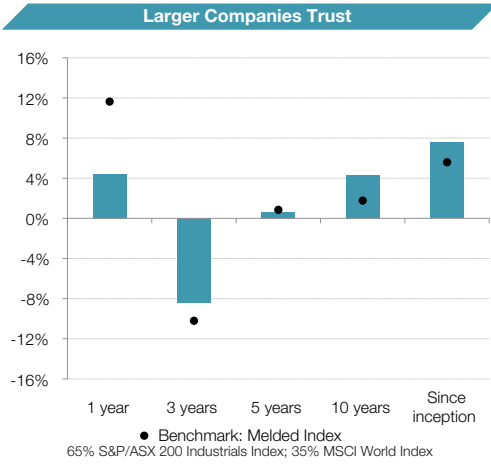
The Larger Companies Trust returned 4.4% over the year compared to 11.6% for its benchmark.

The portfolio's defensive bias contributed to its underperformance and saw it miss the strong rebound in global share markets. Some individual holdings also performed poorly including Sigma Pharmaceuticals and Infigen Energy.





Among the strongest performing Australian shares were ResMed, Ansell and Seek. SMA Solar was the best performing international stock.

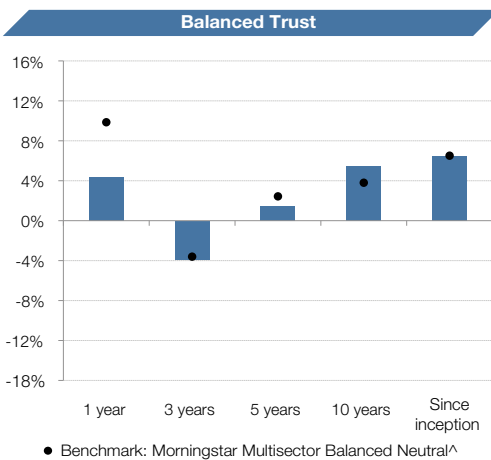
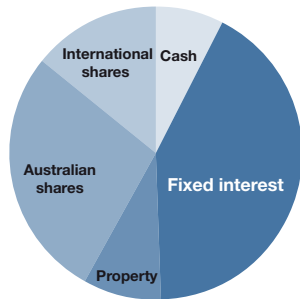


## Balanced Trust

The Balanced Trust returned 4.4% over the year compared to 9.9% for its benchmark.

The fund held a higher than typical stake in the defensive healthcare sector, which did not benefit as much as the mining sector and larger banks from the rebound in share markets early in 2009–10. APA Group and Cochlear performed strongly rising 30.9% and 28.8% respectively.

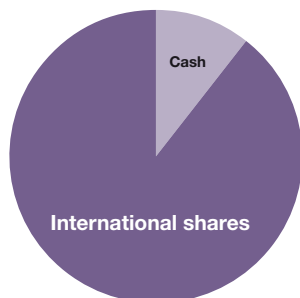
40% of the fund is invested in fixed interest, which performed solidly over the year. Credit concerns continued to ease, causing the value of these investments to rise. Increasing interest rates also benefited the fund.



## International Equities Trust

The International Equities Trust returned 1.1% over the year compared to 5.6% for its benchmark.

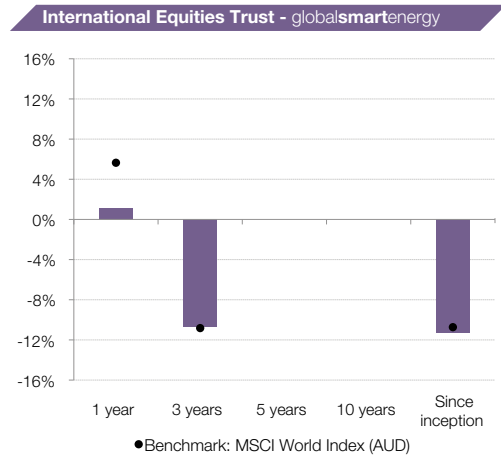
In January 2010 the fund was repositioned as a thematic fund focused on global<sup>smart</sup>energy. The theme sees it invest in



only overseas companies that contribute to a sustainable energy supply or to reducing energy demand.

Renewable energy shares were subdued, but their low share prices are presenting good buying opportunities. Any overseas progress on clean energy legislation would likely see prices react positively.

The strongest performing investments included metal recycler, Asahi Pretec; efficient electric motor manufacturer, Baldor; virtualisation company, VMware; and public transport company, Arriva.



**Amcom Telecommunications**

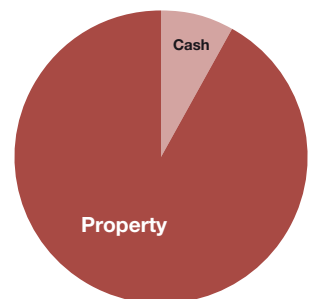
A leading Australian provider of internet, information and communication technology services to business and residential clients in Adelaide, Darwin and Perth.

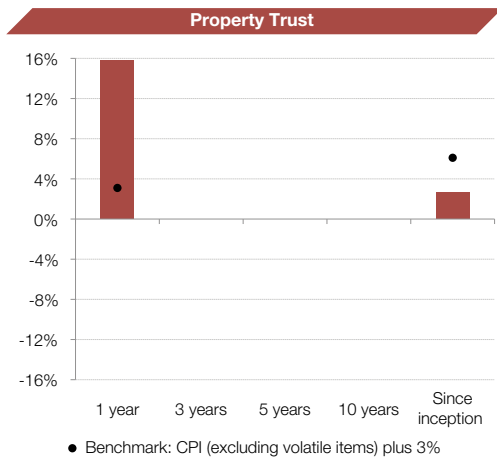
## Property Trust

The Property Trust returned 15.8% over the year compared to 3.1% for its benchmark.

The fund owns the 64 Allara Street commercial building in Canberra and units in an unlisted property trust. The outperformance against the benchmark is due to an increase in valuation of the 64 Allara Street building. The fund portfolio has an occupancy rate of 97%.

The fund is actively seeking new investments in commercial buildings with a minimum 5 Star Green Star rating and in sectors such as education, social infrastructure and healthcare.

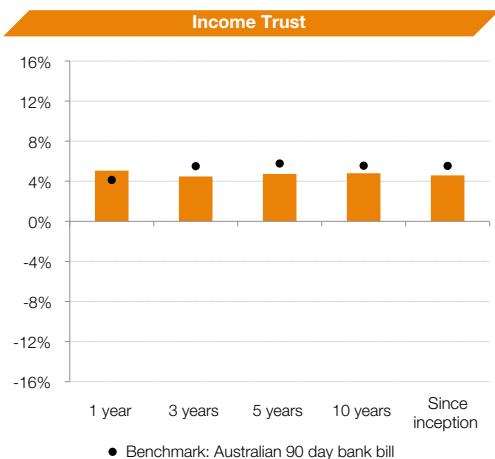
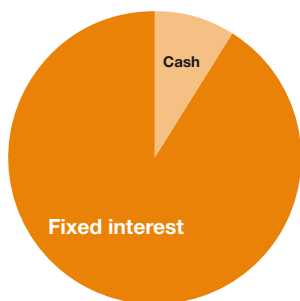




## Income Trust

The Income Trust's return of 5.1% exceeded the benchmark return of 4.1%.

The Reserve Bank began to unwind its response to the global financial crisis with six increases in interest rates over the year and these increases quickly flowed through to returns. The fund took advantage of the competition for deposits from banks and credit unions while remaining covered by a Commonwealth Government Guarantee for deposits of under \$1 million.



64 Allara Street,  
Canberra City, ACT

An attractive small scale 'A' grade property in the Canberra central business district. The building has a 5 Star Green Star rating and forms the cornerstone investment of the Property Trust.

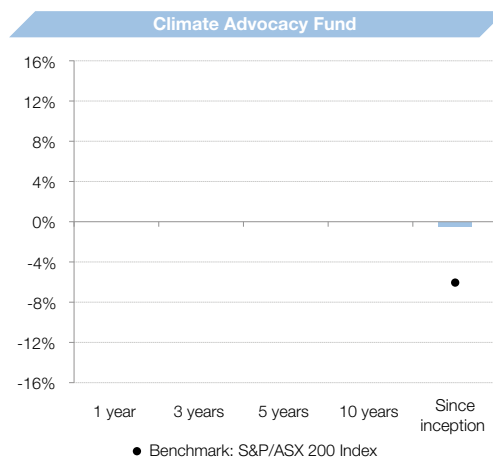
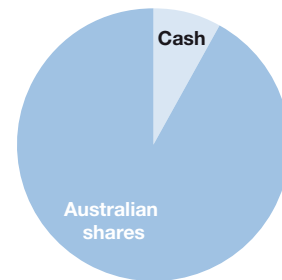


## Climate Advocacy Fund

The Climate Advocacy Fund commenced operation on 18 February 2010. From this date to 30 June 2010 the fund returned -0.5% compared to -6.1% for its benchmark, the S&P/ASX 200 Accumulation Index.

The fund outperformed its benchmark by 5.55%. The fund invests in an economic footprint weighted index portfolio.

The fund collaborated with the Climate Institute in Australia and the Interfaith Centre for Corporate Responsibility in the US in preparing its first resolutions for Australian company AGMs. The fund plans to lodge resolutions with four ASX 200 companies on climate change issues for consideration at their next AGM. Details are available on the fund's website – [www.climateadvocacyfund.com.au](http://www.climateadvocacyfund.com.au).



### Past performance is not a reliable indicator of future performance.

Performance figures are calculated using exit prices and take into account ongoing management fees and trust expenses. Performance figures are calculated as if distributions of income have been reinvested. They do not take into account tax that may be payable on the distribution of income. Neither the return of capital nor the performance of a trust is guaranteed. Figures showing a period of less than one year have not been adjusted to show an annual return. 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.australianethical.com.au](http://www.australianethical.com.au) or by calling 1800 021 227. Units in the trusts are offered and issued by Australian Ethical Investment Ltd ABN 47 003 188 930, AFSL 229949. A product disclosure statement is available from our website or by phone and should be considered before deciding whether to acquire, or continue to hold, units in the trusts. This information has been prepared without taking account of your individual investment objectives, financial situation or needs. Before acting on it, you should consider its appropriateness to your circumstances.

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