

Annual report to members

year ended 30 June 2006

This annual report provides fund information for members of the Australian Ethical Superannuation Fund. The last financial year saw the fund grow to over \$207 million under management, comprising over 8,800 individual members. Our performance to 30 June 2006 is presented in the table below.

PERFORMANCE

Strategy	Accumulation & rollover strategies						Return since inception (1998) % pa compound
	2006 return %	2005 return %	2004 return %	2003 return %	2002 return %		
Income	4.1	4.2	4.7	4.1	3.7	3.9	
Balanced	8.5	13.8	11.9	6.5	0.6	9.0	
Large Companies Share	14.0	22.1	18.5	4.1	-8.5	13.3	
Equities	12.4	18.2	13.2	4.4	-10.4	11.1	

Strategy	Pension strategies						Return since inception (1998) % pa compound
	2006 return %	2005 return %	2004 return %	2003 return %	2002 return %		
Income	5.1	4.8	5.6	4.8	5.1	5.1	
Balanced	9.8	15.0	13.2	7.3	1.6	9.8	
Large Companies Share	16.4	22.1	21.0	4.2	-8.9	12.1	
Equities	14.9	18.6	14.8	5.1	-11.4	11.1	

Past performance is not a reliable indicator of future performance.

Total returns are calculated using exit prices. Total returns take into account ongoing management fees and fund expenses, except that the annual member fee of \$41 is not included. Total returns 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.** Total returns 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.

LICENSING

The Australian Prudential Regulation Authority (APRA), the regulator for the superannuation industry, required that all superannuation fund trustees be licensed by 30 June 2006. Australian Ethical Superannuation Pty Ltd as trustee of the fund was granted a Licence (number L0001441) effective 27 March 2006.

In obtaining the licence, the trustee was required to demonstrate that it meets, and can continue to meet, the standards of governance and risk management required under the new prudential regime.

Following issue of the licence, the trustee applied to APRA to register the fund as a registrable superannuation entity and that application was approved effective 18 April 2006 (registration number R1004731).

Fund strategies update to 30 June 2006

INVESTMENT MANAGER

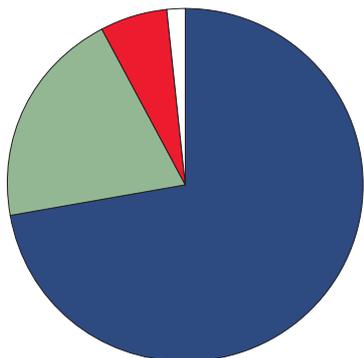
Australian Ethical Superannuation uses Australian Ethical Investment Ltd to manage its funds. Throughout the relevant period, the superannuation investment strategies invested funds into the analogous Australian Ethical investment trusts. A commentary on the four investment strategies appears below. Investments in the Australian Ethical Balanced, Large Companies Share and Equities Trusts as at 30 June 2006 exceeded 5 per cent of the total assets of the fund.

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 12.4 per cent for the year, a third consecutive year of double digit returns. The long-term benchmark for this strategy has been the S&P/ASX 300 Accumulation Index, with some notable differences in the composition of this index and that of the Strategy. The Australian Ethical Charter precludes investment in many mining stocks (direct environmental damage and/or extraction of relatively inefficient fossil fuels) which were once again a large part of the 24 per cent rise in the index value, and a contributor to its volatility subsequent to the end of the period. The 12.4 per cent return is, however, above the strategy's long-term average.

Among the domestic stocks in the Equities Trust, best performers included drainage system provider Envirozel, medical equipment company Vision Systems Ltd, hearing technology company Cochlear, metals recycler Sims Group, and software provider Technology One. Among the international stocks held, the better performers were the Norwegian reverse vending machine manufacturer Tomra Systems ASA and Danish wind turbine manufacturer, Vestas Wind Systems. A number of new stocks were added to the portfolio over the year, including brain function monitoring device maker BrainZ Instruments, hydrogen fuel cells maker Ceramic Fuel Cells Ltd, bicycle maker Accell (Holland), solar energy companies Conergy and Solarworld (Germany), coal seam gas companies Arrow Energy and Eastern Star Gas, wind turbine manufacturer Gamesa Corp (Spain), and school and Greyhound bus operator Laidlaw International (USA).



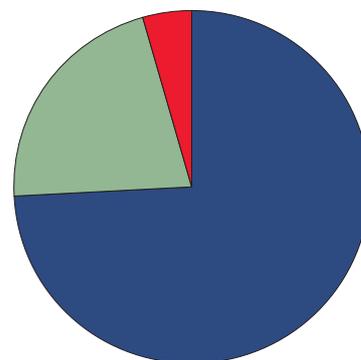
Asset allocation of Australian Ethical Equities Trust which underlies the Equities Strategy

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 14.0 per cent for the year, like the Equities Strategy, a third consecutive year of double digit growth. Due to similar structural differences as the Equities Strategy to its benchmark index, this was behind the rise in the Large Companies Strategy benchmark, the S&P/ASX200 index, which rose by 23.9 per cent.

Best performed stocks were similar to those in the Equities Strategy – with good returns also from blood products company CSL, pallet manufacturer and recycler Brambles Industries, electronic share registry provider Computershare Ltd, and pathology and radiology company Sonic Healthcare Limited. New stocks in this strategy were similar to those in the equities strategy, with the further addition of geothermal energy company, Ormat (USA), and software developer and distributor Adobe Systems (USA).



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 New Zealand

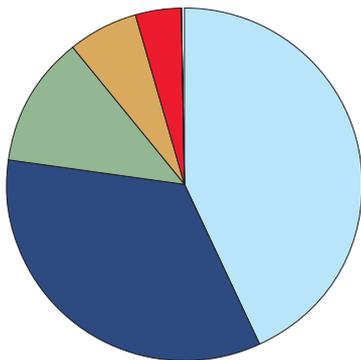
 Equity: International

 Cash

 Other

AUSTRALIAN ETHICAL BALANCED STRATEGY

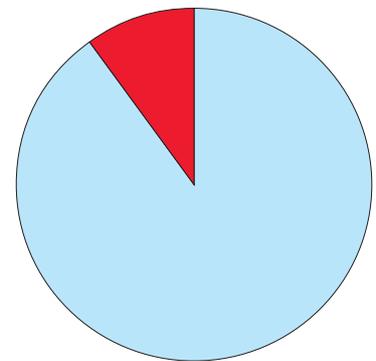
Through the underlying Balanced Trust, the Balanced Strategy concentrates on a wide range of asset types (loans, shares, property and interest-bearing securities), with about 50 per cent in growth assets (shares and property). Attractive total returns (mostly franked income and capital growth) are sought 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 8.5 per cent for the year. The benchmark for this strategy is the ASSIRT Super Multisector 60, an index of other funds with reasonably like asset allocations. The vast majority of other funds in this category do not ethically screen their portfolio, and are free to invest their equity holdings in resource stocks that the strategy avoids. Due to this difference in composition, the trust was behind the index return. The Balanced Strategy is well ahead of its benchmark over five years and has consistently been one of the higher-ranked funds in its category based on performance.



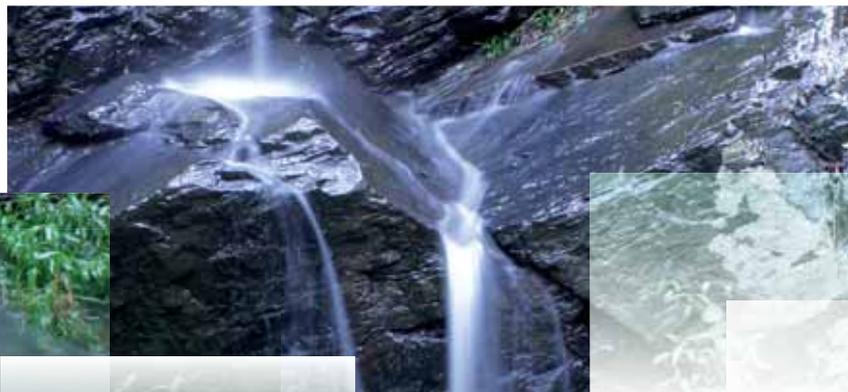
Asset allocation of Australian Ethical Balanced Trust which underlies the Balanced Strategy

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 seventh consecutive year of stable total returns (at 4.1 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

The Australian Ethical Retail Superannuation Fund financial statements for the year to 30 June 2006 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 Retail Superannuation Fund

OPERATING STATEMENT

for the period ended 30 June 2006

	2006 \$	2005 \$
Investment revenue		
Interest	98,777	87,038
Trust distributions	20,379,681	21,908,597
Changes in net market values	(907,980)	(504,439)
Direct investment expense	(9,184)	(7,155)
Net investment revenue	19,561,294	21,484,041
Contributions revenue		
Employer contributions	15,664,935	11,253,666
Members' contributions	9,730,826	8,396,690
Transfers in	21,302,688	13,836,931
Total contribution revenue	46,698,449	33,487,287
Other revenue		
Management fee rebate	3,367,925	2,503,519
Total revenue	69,627,668	57,474,847
Less		
General administration expenses	5,002,257	3,708,976
Surcharge tax expense	164,151	241,764
Total expenses	5,166,408	3,950,740
Benefits accrued before income tax	64,461,260	53,524,107
Less income tax expense	3,639,541	3,321,477
Benefits accrued as a result of operations	60,821,719	50,202,630

STATEMENT OF FINANCIAL POSITION

for the period ended 30 June 2006

	2006 \$	2005 \$
Investments		
Units in Australian Ethical Investment unit trusts	189,722,403	137,248,149
Other assets		
Cash at bank	2,754,754	1,575,961
Other receivables	18,251,490	20,600,117
Total assets	210,728,647	159,424,227
Less liabilities:		
Accounts payable	497,165	395,635
Current tax liability	2,514,436	2,774,369
Deferred tax liability	179,246	354,292
Total liabilities	3,190,847	3,524,296
Net assets available to pay benefits	207,537,800	155,899,931
Liability for accrued benefits		
Allocated to members' accounts	207,537,800	155,899,931
Unallocated to members' accounts	-	-
Total	207,537,800	155,899,931



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.

Interests in the superannuation fund (registration number R1004731) 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, RSEL L0001441. 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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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 2005–06 financial year.

SUPERANNUATION SURCHARGE TAX

The federal government announced the abolition of the superannuation surcharge tax for contributions received from 1 July 2005. For the 2005–06 financial year, however, the surcharge was still deducted from some individual member's accounts, where applicable, to reflect surcharge due from previous years.

DERIVATIVES

The Australian Ethical Retail 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. Lost members with account balances of more than \$1000 will be transferred to the eligible rollover fund if they remain lost members for a period of five years. Being transferred to the Australian Eligible Rollover Fund may effect your benefits because you will cease to be a member of the Australian Ethical Superannuation fund and if you hold insurance through this fund your insurance cover will cease. You should also note that you will be subject to the governing rules of the Australian Eligible Rollover Fund and that fund will apply a different fee structure. 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**

ALLOTMENT OF EARNINGS

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

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