

This annual report provides fund information for members of the Australian Ethical Retail Superannuation Fund. The last financial year saw the fund grow to over \$303 million, and comprising over 10 000 individual members.

Performance

Strategy	Accumulation and rollover strategies					Return since inception (1998) % pa compound
	2007 return %	2006 return %	2005 return %	2004 return %	2003 return %	
Balanced	11.3	8.5	13.8	11.9	6.5	9.2
Equities	36.1	12.4	18.2	13.2	4.4	13.5
Large Companies Share	18.2	14.0	22.1	18.5	4.1	13.6
Income	4.6	4.1	4.2	4.7	4.1	3.9

Strategy	Pension strategies					Return since inception (1998) % pa compound
	2007 return %	2006 return %	2005 return %	2004 return %	2003 return %	
Balanced	12.7	9.8	15.0	13.2	7.3	10.0
Equities	40.3	14.9	18.6	14.8	5.1	14.1
Large Companies Share	20.2	16.4	22.1	21.0	4.2	12.7
Income	5.3	5.1	4.8	5.6	4.8	5.1

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 1300 134 337.

Change of administration

During this financial year Australian Ethical decided to transfer the fund administration to Pillar Administration Services. The transition to the new administrator will occur during the first half of 2008. Both the new and old administrator, as well as Australian Ethical, will be working to ensure a smooth and trouble-free transfer. In order to assist in this process we won't be issuing end of year statements. However, to check your account

balance contact customer service on 1300 134 337 or access your account via the website.

Change of fund custodian

Australian Ethical has entered into a contract with National Custodian Services to provide custodial services for the assets of the fund from September 2007. This change in service provider will have no impact on fund members.

Fund strategies update to 30 June 2007

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 five investment strategies appears below. Investments in the Australian Ethical Investment Balanced, Large Companies Share and Equities Trusts as at 30 June 2007 exceeded 5 per cent of the total assets of the fund.

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 equity based strategies.

The Balanced Strategy returned 11.3 per cent over the financial year 2006–07. This saw the underlying trust ranked seventeenth out of 50 funds in its category by Morningstar Research Pty Ltd. The trust remains in the top quartile of funds in its category over five years.

The trust slightly increased its holdings of debt securities relative to growth assets over the financial year, in anticipation of the market volatility which eventually hit in July 2007. Within its debt portfolio, the trust has focused on quality credits. Within the growth portfolio, the trust moved at the margin in favour of property (now nearly 10 per cent of the underlying trust) and international equities at the expense of domestic equities.

Major new investments for the underlying trust were the purchase of a new state-of-the-art warehouse with green attributes and a long-term government tenant, on a good yield; and the establishment of a cross-investment in the new Australian Ethical World Trust as the most efficient way for the strategy to obtain access to a well-credentialled, diversified, international equities portfolio.

Australian Ethical Equities Strategy

Through the underlying Equities Trust, 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 36.1 per cent in the year to June 2007. This return saw the underlying trust (the Australian Ethical Equities Trust) ranked first out of 144 funds in its Morningstar Research category. An increased focus on small

companies (rising to 30 per cent of the underlying trust by the end of the financial year) made a major contribution to the improved returns.

The underlying trust is now above median (thirty-first out of 75 funds) in returns over a five-year period, while continuing to maintain holdings in companies making a major contribution to the environment and society.

Among the domestic stocks in the Equities Trust, best performers included several smaller companies: natural gas company Arrow Energy, clean geothermal energy (hot fractured rocks) company Geodynamics, IT company Technology One, and Blackmores. Internationally, the trust benefited from the increasing world focus on climate change and the need for renewable energy and energy efficiency, with strong returns from Danish wind turbine manufacturer Vestas Wind Systems, Spanish windpower company Gamesa, and US manufacturer of efficient electric motors Baldor Electric.

New stocks added to the Equities Trust portfolio over the year included geothermal energy companies Green Rock Energy and Petrathern, legal firm Slater and Gordon – known for its actions in the James Hardie (asbestos) and Dow Corning (breast implant) cases, Viridis Clean Energy Group, Smart traffic light technology company Traffic Technologies Limited, and consulting firms GreenCap Limited and AJ Lucas, which offer, as part of a range of services, assistance in improving environmental outcomes. Overseas, the Equities Trust added US carpet manufacturer Interface, known as one of the world's leading exponents of sustainable business practice, and UK socially responsible investment house Impax Group.

Australian Ethical Large Companies Share Strategy

Through the underlying Large Companies Share Trust, the Large Companies Strategy concentrates on investments in Australian companies with a market capitalisation of at least \$1 billion on the Australian Securities 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 18.2 per cent for the year. This return saw the underlying trust fund ranked eighth out of 31 funds in its category by Morningstar Research Pty Ltd. The trust remains in the top quartile of funds in its category over five years (second out of 20 funds).

This year's return was below the benchmark index – the S&P/ASX All Industrials Index. This is because the index is an 'all Australian' index, while the strategy and underlying trust are 'mixed' – including both international and domestic equities. Since the Australian Securities Exchange outperformed world markets, Australian indices naturally rose more than most mixed funds.

Best performed stocks included the two European windpower companies mentioned in the Equities Strategy commentary, with good returns also from blood and vaccine products company CSL,

Swiss hearing aid manufacturer Sonova, Australian financial services providers Computershare and ASX Ltd, as well as listed energy companies Babcock and Brown Wind Partners and Origin Energy. New trust investments were solely in the international part of the portfolio, including UK public transport companies Arriva, Stagecoach, and National Express; European retail banks Deutsche Postbank and Swedbank, Japanese education company Benesse; German solar power companies Conergy and Solarworld, Swedish hospital equipment manufacturer Getinge, US metering company Itron, and New Zealand 100 per cent renewable power utility Trustpower.

Australian Ethical World Strategy

The Australian Ethical World Strategy, and its underlying trust, the Australian Ethical World Trust, were launched in July 2007. The World Trust – a retail vehicle – will, in turn, own units in the Australian Ethical International Equities Trust (the wholesale version which will actually own the international stocks).

No extra fees apply to the cross-investment arrangement.

Through the underlying trusts, this strategy will invest in international companies, generally with a market capitalisation of over AUD 1 billion (equivalent). The aim is to access a portfolio which is well-diversified sectorally, style-wise, and geographically to achieve a long-run performance profile similar to that of a world index (the Morgan Stanley Capital Index (MSCI) in AUD is the benchmark for the Strategy and the underlying trust).

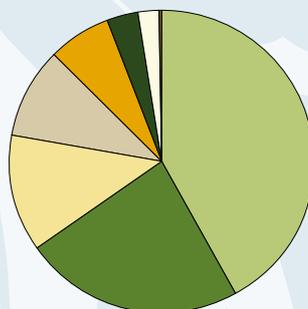
The Australian Ethical International Equities Trust was seeded with investments from the Australian Ethical Balanced Trust in June 2007 and holds shares in 42 companies. Initial returns at the time of writing are ahead of the MSCI.

Australian Ethical Income Strategy

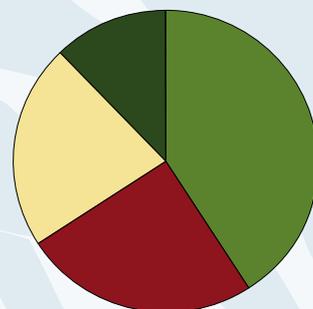
The Income Strategy is the most conservative of the four strategies, emphasising capital stability. The underlying Income Trust has investments in a portfolio of loans which are well secured and of a high ethical calibre, as well as other interest-bearing securities – for the most part, rated investment-grade credits. As at time of writing, the trust had no direct exposures to the sort of sub-prime loans which have caused the recent turbulence on US credit markets.

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 eighth consecutive year of stable returns at 4.6 per cent and continues to have an extremely low measured level of risk (standard deviation of returns). The underlying trust 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.

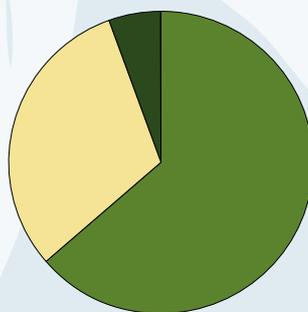
Asset allocation as at 30 June 2007



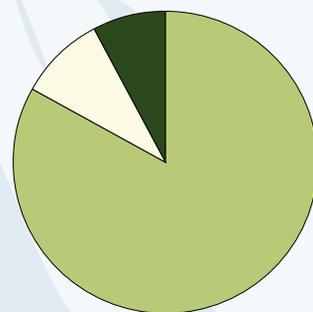
Australian Ethical Balanced Strategy



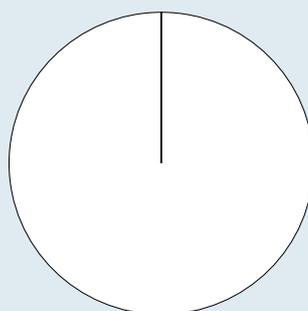
Australian Ethical Equities Strategy



Australian Ethical Large Companies Share Strategy



Australian Ethical Income Strategy



Australian Ethical World Strategy

The Australian Ethical World Strategy became available for investment in July 2007.

Legend

	Equity investments – Australia and New Zealand
	Equity investments – International
	Interest-bearing investments
	Interest-bearing loans
	Cash
	Property
	Units in Australian Ethical Income trust and Australian Ethical International Equities Trust
	Debt equity instruments
	Equity – small caps

Accounts

The Australian Ethical Retail Superannuation Fund financial statements for the year to 30 June 2007 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 2007

	2007 \$	2006 \$
Investment revenue		
Interest	145 122	98 777
Trust distributions	30 766 394	20 379 681
Changes in net market values	11 883 600	(907 980)
Direct investment expense	(11 122)	(9 184)
Net investment revenue	42 783 994	19 561 294
Contributions revenue		
Employer contributions	20 237 073	15 664 935
Members' contributions	26 570 510	9 730 826
Transfers in	27 942 731	21 302 688
Total contribution revenue	74 750 314	46 698 449
Other revenue		
Management fee rebate	4 634 536	3 367 925
Other revenue	200	-
Total other revenue	4 634 736	3 367 925
Total revenue	122 169 044	69 627 668
Less		
General administration expenses	6 801 192	5 002 257
Surcharge tax expense	133 190	164 151
Total expenses	6 934 382	5 166 408
Benefits accrued before income tax	115 234 662	64 461 260
Less income tax expense	7 491 140	3 639 541
Benefits accrued as a result of operations	107 743 522	60 821 719

Accounts – continued

Australian Ethical Retail Superannuation Fund

Statement of financial position

for the period ended 30 June 2007

	2007 \$	2006 \$
Investments		
Units in Australian Ethical Investment unit trusts	275 800 471	189 722 403
Other assets		
Cash at bank	5 735 413	2 754 754
Other receivables	28 257 871	18 251 490
Total assets	309 793 755	210 728 647
Less liabilities		
Accounts payable	797 529	497 165
Current tax liability	4 569 703	2 514 436
Deferred tax liability	1 415 834	179 246
Total liabilities	6 783 066	3 190 847
Net assets available to pay benefits	303 010 689	207 537 800
Liability for accrued benefits		
Allocated to members' accounts	303 010 689	207 537 800
Unallocated to members' accounts	-	-
Total	303 010 689	207 537 800

The information contained in this report is general information only. It doesn't 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.

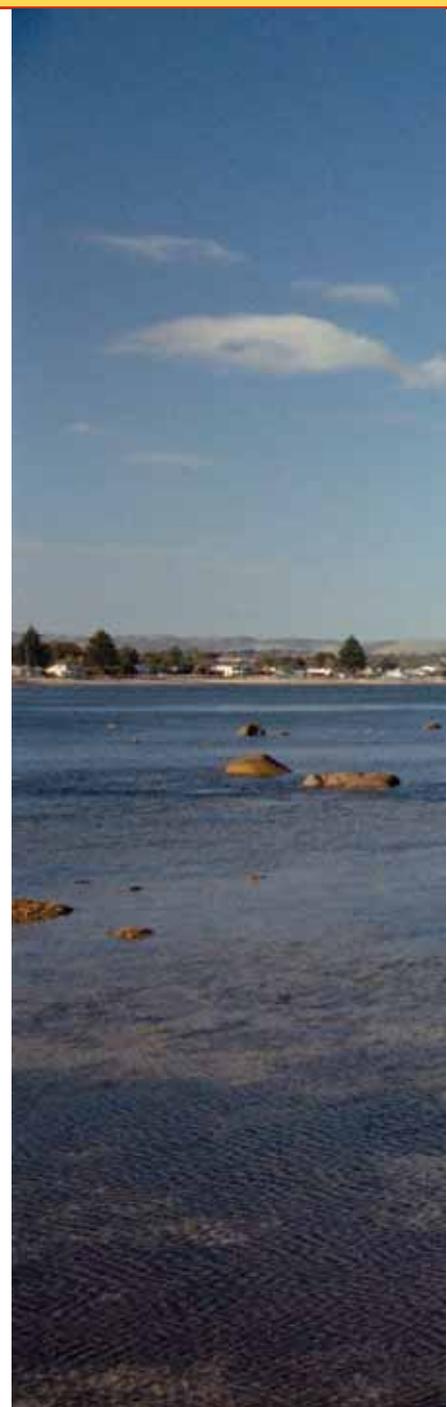
Interests in the superannuation fund (registration number R1004731) are offered by Australian Ethical Investment Ltd ABN 47 003 188 930, AFSL 229949 and issued by the trustee of the fund, Australian Ethical Superannuation Pty Ltd ABN 43 079 259 733, RSEL L0001441.

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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Photo © Philip Sloane

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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 2006–07 financial year.

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 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 Retail 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 inquiries to:



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1300 134 337
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www.austethical.com.au

