



australian**ethical**  
Retail Superannuation Fund  
ANNUAL REPORT  
TO MEMBERS

Year ended 30 June 2008

1300 134 337 • [www.austethical.com.au](http://www.austethical.com.au)

australian**ethical**  
investment + superannuation

# Executive Officer's report

The Australian Ethical Superannuation Fund took a number of significant steps forward in a busy and challenging year.

The 'back office' administration for the fund was changed to a new administration service provider. The transition to Pillar Administration has been more difficult and protracted than expected. Australian Ethical is aware that this exercise has caused some frustration and concern to members. At the commencement of the transition, the trustee felt it was prudent to audit the full member account details as they were transferred from the previous service provider. This pushed back timeframes for full implementation of the new administration.

The transition came at a time when we had recently bedded down the new fund custodian procedures and delays in producing unit prices for our various strategies saw delays in the payment of benefits to some members. This situation created difficulties for some members for which Australian Ethical apologises.

The change of administration services was made primarily to enhance member services with improved online functionality, enabling members to change investment strategies, update address or beneficiary details and view account balances. Soon you will be able to use BPAY to contribute to your super. The online facility also reduces paper use.

Australian Ethical's product suite expanded during the financial year to include a World Strategy. This strategy provides exposure to international companies that are leaders on a range of environmental and social criteria.

The World Strategy was launched in August 2007 and, unfortunately, international stock markets began to slide not long afterwards. As a result, the World Strategy has posted a

negative return to the end of the financial year. However, it still outperformed its benchmark over this period.

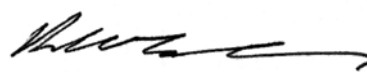
In a further boost to Australian Ethical Superannuation's reputation as a truly deep-green fund manager, it was awarded the inaugural Infinity Award at the Conference of Major Super Funds in March 2008. The Award signifies the fund as Australia's most environmentally and socially conscious fund and a leader in sustainable investment and sustainable business practices.

The last 12 months has seen significant volatility in domestic and overseas financial markets. As a result many superannuation funds have produced poor returns compared to the outstanding returns of recent years.

Our fund has not been immune to the effects of the global volatility. Except for super invested in our Income Strategy, all other strategies produced negative returns in 2007–08. The investment manager's report (right) describes the fund's performance in more detail.

While negative returns are always painful, it is important to put the returns of the last financial year in perspective. Superannuation investment has a long time horizon. If the financial performance of the different strategies were looked at over a period of five years, for instance, your return is significantly positive.

I wish you all the best and look forward to your continuing support in the future.



Rob Whalan  
Executive Officer

## Performance

Strategy	Accumulation and rollover strategies					
	2008 return %	2007 return %	2006 return %	2005 return %	2004 return %	5 year return % pa compound
Balanced	-8.8	9.8	8.2	13.5	11.6	6.5
Equities	-11.8	33.6	12.2	17.9	12.9	12.0
Large Companies Share	-16.6	15.4	13.8	21.8	18.2	9.5
Income	4.0	4.2	3.8	3.9	4.3	4.0
World (6 month figure)	-15.9	-	-	-	-	-

Strategy	Pension strategies					
	2008 return %	2007 return %	2006 return %	2005 return %	2004 return %	5 year return % pa compound
Balanced	-9.7	10.9	9.8	14.9	13.1	7.4
Equities	-12.3	37.2	14.8	18.5	14.7	13.4
Large Companies Share	-18.7	16.6	16.3	22.0	20.9	10.2
Income	4.6	5.1	5.0	4.7	5.5	5.0
World (6 month figure)	-17.0	-	-	-	-	-

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. 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. Total returns for periods of less than one year have not been adjusted to show an annual return. The latest available performance figures can be obtained from our website [www.austethical.com.au](http://www.austethical.com.au) or by calling 1300 134 337.

# Fund strategies update to 30 June 2008

## 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 2008 exceeded 5 per cent of the total assets of the fund.

The financial year of 2007–08 saw the end of a ‘goldilocks’ phase in financial markets. In the goldilocks phase it had seemed to many that large fluctuations in economic growth were a thing of the past and that benign financial conditions would continue indefinitely. Many investors responded by borrowing ever-larger amounts to fund the purchase of assets for which they paid ever-higher prices. These assets included promises to repay mortgage borrowings by people in the US who had little chance of doing so unless house prices rose continually. At the beginning of 2007–08 a rush to offload holdings of such assets got underway. That rush for the exits caused prices of such assets to fall. Organisations that had funded their holdings of such assets with short-term borrowings found themselves unable to obtain refinancing, as borrowings became a larger fraction of the now lower value of their assets. The effects cascaded through world financial markets, as companies threatened by insolvency offloaded liquid assets to repay short-term borrowings, so causing other asset prices to fall and insolvency problems to spread. This de-leveraging process, of assets sales and credit contraction accompanied by asset price falls, was a major feature of financial markets around the world in 2007–08.

US economic growth proved remarkably resilient in the face of this de-leveraging process. The US economy is not officially in recession, although it has slowed. Growth in many other economies around the world, including Australia, has also slowed.

Another major feature of financial markets during 2007–08 was rising prices for many commodities and energy. Due to our commitment to the Charter, the trusts lacked exposure to coal, oil and uranium. Most trusts benefited from investments in companies involved in the extraction of natural gas. Australian Ethical views natural gas as a transition fuel from highly polluting coal to a future focused on renewable energy.

The Australian Ethical Trusts performed creditably in a year of poorly performing financial markets.

Market performance 2007–08	Return (%)
S&P/ASX All Industrials Index	-26.1
S&P/ASX Small Industrials Index	-36.52
MSCI World Index (AUD)	-23.6

In the year, foreign currency hedging was increased for the Equities, Large Companies and World Trusts so that approximately the full value of international equities held by these trusts is now hedged. This will be the hedging position for these Trusts for the foreseeable future. Foreign currency hedging in the Balanced Trust was reduced through 2008 and the value of international equities in this Trust will be unhedged in future.

## Australian Ethical Balanced Strategy

Through the underlying Balanced Trust, the Balanced Strategy concentrates on a wide range of asset types (Australian and international shares, property, loans 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 share based strategies.

The Australian Ethical Balanced Strategy returned -8.8% for the 2007–08 year, reflecting its more conservative mixture of asset classes, including around 40% in fixed interest investments. Long-term results for the Balanced Strategy remain solid, being 11.9% per annum over five years and 6.9% since inception.

The underlying trust retains a balance between quality domestic and international stocks, property and debt securities (including a small proportion of private loans). All investments in the portfolio are screened against the Australian Ethical Charter.

Over the year, the trust sold down most of its direct investments in international equities and replaced them with units in the Australian Ethical International Equities (wholesale) Trust that provides an efficient mechanism for the trust to access a well-diversified international equities exposure.

## 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 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.

The Australian Ethical Equities Strategy returned -11.8% for the 2007–08 year. This was a much smaller loss than could reasonably have been expected given the performance of the share market. The strategy’s benchmark, the S&P/ASX Small Industrials Index, for example, returned -36.5%. As a result, our Equities Trust ranks number one in its category over six months and over one year.

The Equity Trust’s relatively strong performance was helped by its investments in companies in the production of natural gas (a low carbon transition fuel). Three such companies, Pure Energy (5.8% of the trust), Origin Energy (5.3% of the trust) and Arrow Energy (4.1% of trust) made up the three largest positions in the trust at 30 June 2008, following a surge in the value of such companies.

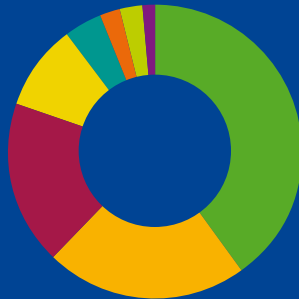
## Australian Ethical Large Companies Share Strategy

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.

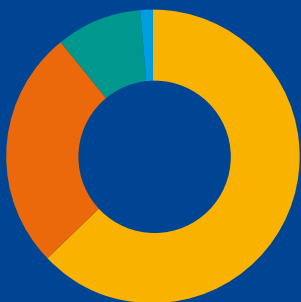
The Australian Ethical Large Companies Share Strategy returned -16.6% for the year. This is a disappointing result for any

## Asset allocation as at 30 June 2008

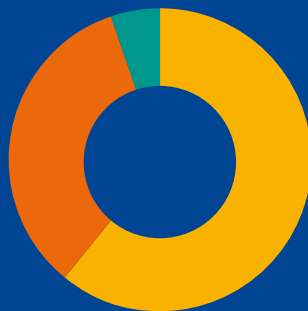
Australian Ethical Balanced Strategy



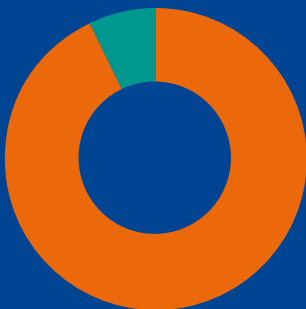
Australian Ethical Equities Strategy



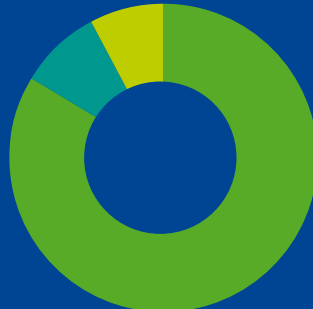
Australian Ethical Large Companies Share Strategy



Australian Ethical World Strategy



Australian Ethical Income Strategy



### Legend

	Debt equity instruments
	Units in other Australian Ethical Trusts
	Equity investments – International
	Equity investments – Australia and NZ
	Property
	Interest-bearing loans
	Interest-bearing investments
	Cash
	Unlisted equity

These are the asset allocations for the underlying Australian Ethical Trusts into which the corresponding superannuation strategies invest. The Fund also holds directly a relatively small amount of cash, which is allocated across the superannuation strategies.

investment. It is comparable however to the two indices that best represent the types of shares that the underlying trust invests in – the S&P/ASX 200 Industrials Index that returned -26.1% for the year and the MSCI World Index in Australian dollars that returned -23.6% for the year. The trust's more conservative management style and the exclusion of smaller companies makes it less volatile than the Australian Ethical Equities Trust. The overseas shares provide access to some key ethical sectors (public transport, bicycles, wind power, solar power, recycling) which are in short supply on the ASX.

The negative performance of the Large Companies Strategy in 2007–08 followed four consecutive years of double-digit returns. Between the years 2004 to 2007 returns were 18.5%, 22.1%, 14.0% and 18.2% respectively. The trust's long-term returns remain competitive with other funds and with the market as a whole.

### Australian Ethical World Strategy

The Australian Ethical World Strategy, and its underlying trust, the Australian Ethical World Trust, were launched in August 2007. The World Trust – a retail vehicle – in turn, owns units in the Australian Ethical International Equities Trust (the wholesale version which actually owns the international stocks). No extra fees apply to the cross-investment arrangement.

The Australian Ethical World Strategy commenced operation on 2 August 2007, and from that date until 30 June 2008 returned -15.9% compared with the MSCI World Index (measured in Australian dollars) that returned -20.4%.

At 30 June 2008, the World Trust had investments in 48 overseas companies providing a well-diversified international equities exposure, along with access to key ethical sectors (public transport, bicycles, wind power, solar power, recycling), which are in short supply on the ASX.

### Australian Ethical Income Strategy

The Income Strategy is the most conservative of the five 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 trust had no direct exposures to the sort of sub-prime loans which have caused the recent turbulence on US credit markets.

The Australian Ethical Income Strategy in 2007–08 returned 4.0%, after recording its second strongest return of 4.6% in the previous year. The strategy has now recorded nine consecutive years of stable performance. Australian Ethical continues to manage the Trust to achieve returns reflecting current interest rate levels with very low volatility.

As markets were very volatile and the interest rate curve was mostly inverse over the period (meaning that short-term yields were higher than long-term yields), the duration of securities in the portfolio was deliberately kept very short. The AAA-rated mortgage-backed securities in the Trust were selected to have a very short-weighted average life in line with the overall portfolio approach of having short-dated or floating-rate securities. This means there is little interest rate risk in the portfolio. It is expected that the Trust's yield will move broadly in line with the level of interest rates.

To protect investors from credit risk the majority of the portfolio comprised high-quality bank debt and investment grade non-bank debt. Only 14% of interest-bearing securities were non-AAA rated securities (bank and non-bank issued).

# Accounts – Australian Ethical Retail Superannuation Fund

The Australian Ethical Retail Superannuation Fund financial statements for the year to 30 June 2008 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.

## Operating statement

for the period ended 30 June 2008	2008 \$	2007 \$
<b>Investment revenue</b>		
Interest	240 883	145 122
Trust distributions	8 905 306	30 766 394
Changes in net market values	(49 172 019)	11 883 600
Direct investment expense	(6 396)	(11 122)
<b>Net investment revenue</b>	<b>(40 032 226)</b>	<b>42 783 994</b>
<b>Contributions revenue</b>		
Employer contributions	26 173 741	20 237 073
Members' contributions	13 097 869	26 570 510
Transfers in	22 793 026	27 942 731
<b>Total contribution revenue</b>	<b>62 064 636</b>	<b>74 750 314</b>
<b>Other revenue</b>		
Management fee rebate	5 719 668	4 634 536
Other revenue	315 770	200
<b>Total other revenue</b>	<b>6 035 438</b>	<b>4 634 736</b>
<b>Total revenue</b>	<b>28 067 848</b>	<b>122 169 044</b>
<b>Less</b>		
General administration expenses	8 088 395	6 801 192
Surcharge tax expense	7 176	133 190
<b>Total expenses</b>	<b>8 095 571</b>	<b>6 934 382</b>
Benefits accrued before income tax	19 972 277	115 234 662
Less income tax expense	(1 470 940)	7 491 140
<b>Benefits accrued as a result of operations</b>	<b>21 443 217</b>	<b>107 743 522</b>

## Statement of financial position

for the period ended 30 June 2008	2008 \$	2007 \$
<b>Investments</b>		
Units in Australian Ethical Investment unit trusts	295 634 191	275 800 471
<b>Other assets</b>		
Cash at bank	7 491 941	5 735 413
Other receivables	5 055 060	28 257 871
Deferred Tax Asset	3 961 733	-
<b>Total assets</b>	<b>312 142 925</b>	<b>309 793 755</b>
<b>Less liabilities</b>		
Accounts payable	5 346 030	797 529
Current tax liability	1 577 792	4 569 703
Deferred tax liability	-	1 415 834
<b>Total liabilities</b>	<b>6 923 822</b>	<b>6 783 066</b>
<b>Net assets available to pay benefits</b>	<b>305 219 103</b>	<b>303 010 689</b>
<b>Liability for accrued benefits</b>		
Allocated to members' accounts	304 315 397	303 010 689
Unallocated to members' accounts	903 706	-
<b>Total</b>	<b>305 219 103</b>	<b>303 010 689</b>

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](http://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. © Registered trademark of Australian Ethical Investment Ltd

# 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 2007–08 financial year.

## Derivatives

The Australian Ethical Retail Superannuation Fund does not use derivatives. It invests in collective investment funds managed by Australian Ethical Investment Ltd which use derivatives to reduce the impact of large adverse movements in currency exchange rates (foreign currency hedging). During the year Australian Ethical Investment increased the use of foreign currency hedging for the Equities, Large Companies and World Trusts so that approximately the full value of currency exposure embodied in international equities held by these Trusts is now hedged against large adverse movements. This will be the hedging position for these Trusts for the foreseeable future. Foreign currency hedging in the Balanced Trust was reduced through 2008 and the currency exposure embodied in this Trust's international equities will be unhedged in future.

## 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:



Australian Ethical Superannuation  
PO BOX 1916  
WOLLONGONG NSW 2500  
1300 134 337  
aes@austethical.com.au  
www.austethical.com.au