

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

Year ended 30 June 2009

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australian**ethical**
investment + superannuation

Executive Officer's report

The last financial year was a difficult one for all superannuation funds as a result of the well-publicised global financial crisis and the impact it had on world financial markets.

You would no doubt be aware of the disruption in the financial markets that spread worldwide and the direct impact that this had on shareholders, investors in managed funds and superannuation fund members within Australia.

The resultant fall in sharemarkets had a significant impact on investment returns for your fund, however we have not deviated from our long-term approach to sustainable investing and this has held us in good stead in the current markets. The fund's returns are provided in this report, as is commentary on its performance. While a loss of capital in any investment is difficult to accept, we should remember that all investments involve a degree of risk. In relative terms the fund's investment options have performed well. Our investment manager has worked hard to ensure that losses were minimised and I commend the hard work of the investment team.

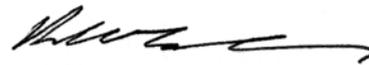
During the year, BPAY was introduced to enable members to make contributions directly into the fund and enhancements continued to be made to the website. It is envisaged that further improvements in the coming year will enable members to be notified electronically of the availability of the

annual report and view it online, thus reducing both paper usage and cost. Please check that we hold current details of your email address.

Strategic asset allocations for some of the fund's investment choices are changing. If you are an investor in the Balanced, Equities or Large Companies Share Strategies you should review the table below to see the new strategic asset allocations for the investment trusts underlying those strategies. Please ensure that these strategic asset allocations remain appropriate for your investment profile.

It would be remiss of me not to take this opportunity to thank the directors and office staff for their work during the year. Their continuing dedication to the aims of the Australian Ethical Charter and the fund itself gives me confidence that the fund is well positioned to provide solid investment returns sustainably.

I wish you all the best and look forward to your continued support.



Rob Whalan
Executive Officer

Investment ranges (underlying trusts)*	Balanced Strategy		Equities Strategy		Larger Companies Share Strategy	
	Minimum %	Maximum %	Minimum %	Maximum %	Minimum %	Maximum %
Interest bearing securities	25	60	–	–	–	–
Australian shares	20	45	65	97	50	75
Property	–	25	–	–	–	–
International shares	15	30	–	20	20	35
Cash	0.5	6	3	15	2	15
Loans	–	12.5	–	–	–	–

* The effective allocation to cash for each strategy is generally greater than for the underlying trust

Fund strategies update to 30 June 2009

2008–09 a year to remember and not to forget

Investors and investment managers will look back at 2008–09 as one of the toughest years for investing in more than 75 years. It is sobering to be reminded of just how close the international banking system was to collapse in the last quarter of 2008. The demise of Lehman Brothers in the US and the subsequent bail out of some of the world's largest financial institutions should be a reminder that nothing is too big to fail. Nevertheless, the US and UK governments decided that a number of institutions were too critical to the workings of the international capital markets and the public good to be allowed to go under. This has created a moral dilemma where it appears that poor investment and management decisions are effectively underwritten by governments. Tax payers may have the last laugh if the equity in these companies, now owned by governments, treble in the coming years. There are many lessons to be learned.

Long-term positive returns still in tact

Our fund has survived the year a little battle scarred but without substantial damage. We are making good headway in returning to profitability in the good market conditions we have seen since the start of March 2009, led by the coordinated monetary and fiscal policy easing of governments around the globe. The comparatively small single digit losses (–2.5% to –8.7%) experienced over the year by the Balanced, Equities and Larger Companies Strategies, place them at a considerable advantage in being able to return to profitability. It also means that any small losses this year have not substantially dented our long-term positive return to investors.

Better companies – better markets

Australian Ethical has again been active this year in engaging companies and government on a range of issues including Renewable Energy Target, CPRS, environmental and social impacts as well as corporate governance. We subscribe to the view that managing business ethically results in better

outcomes; financially, environmentally and socially in the long-term. The market dislocation we have seen in the past year provides an excellent opportunity for companies to implement sustainable ways of doing business. Our investments are uniquely placed to benefit from this shift.

Australian Ethical Balanced Strategy

The Balanced Strategy returned -4.9% over the year compared to -12.6% for its benchmark, the Morningstar Multisector Peer Group, and -24% for the broader S&P/ASX 200 Index.

The strategy held a higher than typical stake in the domestic healthcare sector which provided superior performance for the whole year. The strategy avoided the fallout from the bursting of the mining sector bubble. It also had no equity exposure to the large banks during the financial crisis.

The biggest detractor from overall performance was the small exposure to the listed property sector and to regional banks. The smaller banks suffered in the competition for funding due to the government guarantee on deposits, wholesale borrowing and increases in bad debt provisions.

The fixed income portion of the portfolio (>35%) performed very solidly over the year. The investments were mostly short dated highly-rated debt securities. We have continued to buy well rated bonds over the course of the year and these have since appreciated in value as credit concerns dissipated in the last quarter of the financial year.

The international equities exposure (15%) declined in value in-line with the market, but has rebounded and substantially outperformed in the last three to six months of the financial year.

Australian Ethical Equities Strategy

The Equities Strategy returned -2.5% over the year compared to -21.6% for its benchmark, the S&P/ASX Small Industrials Index.

This significant outperformance was largely driven by favourable stock selection as well as the strategy's focus on the defensive healthcare and utilities sectors, which tend to outperform in negative markets.

One of the strongest performing shares was coal seam gas explorer Pure Energy, which significantly benefited from a takeover battle between Arrow Energy and British Gas. Takeovers also pushed-up shares in MYOB, St George Bank and Queensland Gas Corporation.

The strongest investments were in the defensive healthcare and utility sectors. Standouts included Cochlear, Primary Healthcare and utility APA Group. In the energy sector, Origin Energy performed well.

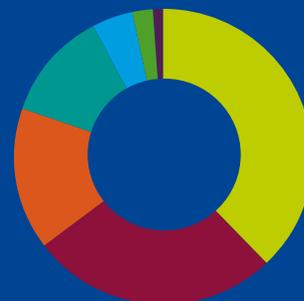
The biggest detractors from overall performance included Savcor, which was punished as its Chinese mobile phone component business disappointed. Viridis Clean Energy was de-rated on the back of debt concerns. Melbourne IT underperformed because of reduced global renewals of domain names and higher operational costs.

Australian Ethical Large Companies Share Strategy

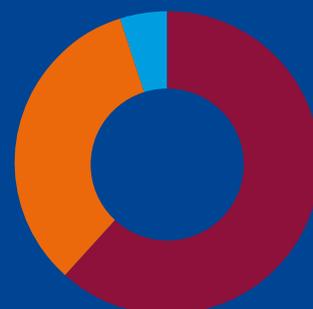
The Large Companies Share Strategy returned -8.7% over the year compared to -14.7% for its benchmark (comprised of 65% S&P/ASX 200 Industrials and 35% MSCI World in Australian dollars). This significant

Actual asset allocation as at 30 June 2009

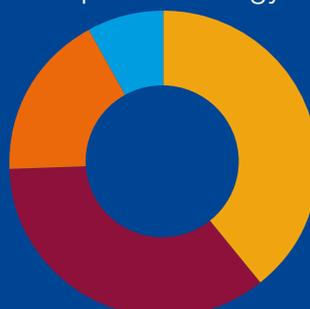
Australian Ethical Balanced Strategy



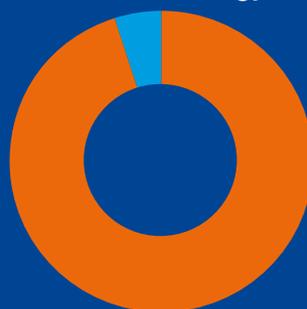
Australian Ethical Large Companies Share Strategy



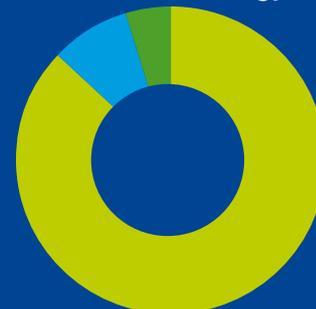
Australian Ethical Equities Strategy



Australian Ethical World Strategy



Australian Ethical Income Strategy



Legend

- Debt equity instruments
- Shares – Australia and NZ
- Shares – International
- Shares – Small companies
- Interest-bearing investments
- Interest-bearing loans
- Property
- Cash

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.

Performance

Strategy	Accumulation and rollover strategies					5 year return % pa compound
	2009 return %	2008 return %	2007 return %	2006 return %	2005 return %	
Balanced	- 4.9	- 8.8	9.8	8.2	13.5	3.2
Equities	- 2.5	-11.8	33.6	12.2	17.9	8.8
Large Companies Share	- 8.7	-16.6	15.4	13.8	21.8	4.0
Income	2.7	4.0	4.2	3.8	3.9	3.7
World	- 16.2	-15.9	-	-	-	-

Strategy	Pension strategies					5 year return % pa compound
	2009 return %	2008 return %	2007 return %	2006 return %	2005 return %	
Balanced	- 5.8	- 9.7	10.9	9.8	14.9	3.5
Equities	- 4.9	-12.3	37.2	14.8	18.5	9.3
Large Companies Share	- 10.1	-18.7	16.6	16.3	22.0	3.9
Income	3.5	4.6	5.1	5.0	4.7	4.6
World	- 20.9	-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 or by calling 1300 134 337.

outperformance was largely driven by its focus on the defensive healthcare and utilities sectors, as well as a strong contribution from industrial shares.

Among the strongest performing shares were Australian healthcare companies Cochlear, Sonic Health and Ramsay Health Care. Danish wind turbine manufacturer Vestas, the UK rail companies (industrials), Origin Energy and APA Group (utilities) were also strong performers.

The biggest detractor from overall performance was the large stake in the defensive consumer staples and telecommunications sectors. These sectors contain some large companies that performed strongly but Australian Ethical ruled them out of the portfolio on ethical grounds.

Australian Ethical World Strategy

Led by finance stocks, global markets declined drastically over September and October 2008, and dipped further over February 2009. In US dollars, the global benchmark MSCI Index declined 50% from June 2008 to March 2009. However, a recovery seemed to emerge over April and May. Chinese production and US housing figures started to look 'less bad', and the share markets anticipated a rebound in company earnings for 2010. Over the year, in US dollars, the global benchmark MSCI Index ended 29% lower.

The currency exchange rates were favourable for the translation back into Australian dollars, which mitigated some of the loss. The MSCI Index in Australian dollars fell only 16% for the year. In comparison, the World Strategy declined -16.2%. The strategy suffered from particularly large falls in its renewable energy investments in October 2008.

Renewable energy stocks underperformed this year due to a decline in energy demand and prices. Companies reported large falls in orders for wind turbines and solar panels globally. Uncertainty around the US carbon pricing policy and the UN climate change talks later this year in Copenhagen has held the sector back.

In the second half of the year, the strategy's investments in stock exchanges recovered, particularly the Hong Kong and Singapore exchanges. New York and NASDAQ stock exchanges were added to the portfolio for geographical diversification. The strategy also benefitted from US cyclical stocks rebounding off their lows, including United Natural Foods, Whole Foods Market, Sims Metal Management and LKQ Corp.

As advised in an update to members on 21 August 2009, the World Strategy will invest directly into the Australian Ethical International Equities Trust which is not hedged for foreign currency exchange rate movements.

Australian Ethical Income Strategy

In 2009, the Australian Ethical Income Strategy returned 2.7%, having recorded a 4.0% return in the previous year. The decline in the return against the previous year was driven by the Reserve Bank responding to the global financial crisis with a dramatic series of cuts to interest rates.

The strategy was positioned almost entirely in shorter duration deposits and securities so the action by the Reserve Bank was reflected quickly in the returns provided through bank deposits. As the credit crisis intensified, the market demanded a higher yield from debt investments and so prices began to move down. The investments held by the strategy are valued by reference to market prices, so the value of strategy investments fell because of this market aversion to risk.

The introduction of the government guarantee for deposits under \$1 million and healthy competition for deposit funding amongst banks has helped the strategy receive better rates on its deposits through the latter half of the year. Its short positioning with these deposits and its holdings in floating rate investments (such as AAA rated mortgaged-backed securities) will allow it to take advantage of increasing interest rates as the economy recovers.

The Australian Ethical Retail Superannuation Fund financial statements for the year to 30 June 2009 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 2009	2009 \$	2008 \$
Investment revenue		
Interest	363,724	240,883
Trust distributions	5,274,402	8,905,306
Changes in net market values	(19,573,721)	(49,172,019)
Direct investment expense	(59,021)	(6,396)
Net investment revenue	(13,994,616)	(40,032,226)
Contributions revenue		
Employer contributions	27,906,370	26,173,741
Members' contributions	7,245,130	13,097,869
Transfers in	9,652,117	22,793,026
Total contribution revenue	44,803,617	62,064,636
Other revenue		
Management fee rebate	5,180,629	5,719,668
Other revenue	14,215	315,770
Total other revenue	5,194,844	6,035,438
Total revenue	36,003,845	28,067,848
Less		
General administration expenses	7,752,197	8,088,395
Surcharge tax expense	5,459	7,176
Total expenses	7,757,656	8,095,571
Benefits accrued before income tax	28,246,189	19,972,277
Less income tax expense	1,695,147	(1,470,940)
Benefits accrued as a result of operations	26,551,042	21,443,217

Statement of financial position

for the period ended 30 June 2009	2009 \$	2008 \$
Investments		
Units in Australian Ethical Investment unit trusts	295,917,084	295,634,191
Other assets		
Cash at bank	10,053,167	7,491,941
Other receivables	2,182,733	5,055,060
Deferred tax asset	6,302,358	3,961,733
Total assets	314,455,342	312,142,925
Less liabilities		
Accounts payable	1,500,600	5,346,030
Current tax liability	933,233	1,577,792
Deferred tax liability	-	-
Total liabilities	2,433,833	6,923,822
Net assets available to pay benefits	312,021,509	305,219,103
Liability for accrued benefits		
Allocated to members' accounts	311,946,635	304,315,397
Unallocated to members' accounts	74,874	903,706
Total	312,021,509	305,219,103

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.australianethical.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 2008–09 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 may use derivatives to reduce the impact of large adverse movements in currency exchange rates (foreign currency hedging). The collective investment funds may also use derivatives to manage interest rate and duration risk in fixed interest and property portfolios.

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. Lost members with account balances of less than \$4000 will be transferred to the eligible rollover fund if there have been no contributions to their account in the previous 12 months. A member is regarded as lost if at least two written communications have been sent by the fund to a member's last known address are returned unclaimed. 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
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1300 134 337
aes@australianethical.com.au
www.australianethical.com.au