

australian**ethical**

SUPER & MANAGED FUNDS

half-year update

December 2010



Contact Australian Ethical

Australian Ethical Investment
GPO Box 2435
Canberra ACT 2601

1800 021 227
trustadmin@australianethical.com.au
www.australianethical.com.au

australian**ethical** 
investment + superannuation



James Jordan

Investment update

What events do you remember 2010 for?

The year of 2010 saw two memorable events for investors. The European debt crisis overshadowed the first half of the year. The announcement in August by the Chairman of the US Federal Reserve of a second round of quantitative easing (printing money) had a major positive influence on share markets during the second half of the year.

How did the strong performance of the materials and resources affect our performance?

Our Ethical Charter in practice keeps us out of almost all materials and resources stocks. This made 2010 a challenging year for us. As the S&P/ASX200 Materials index returned 12.5%, the Small Resources index returned 30.0%, the S&P/ASX200 returned 1.6% and the Small Industrials Index returned -1.7%. The Australian Ethical Smaller Companies trust did very well therefore to return 4.5% for the year after fees and expenses. The driver of this strong performance was the fund's holdings of small Australian companies which returned 20% for the year.

What are the big themes for 2011?

Entering 2011 the same major factors loom large. Austerity in Europe will exert a dampening effect on the global economy as will a likely continuation of high saving by US consumers. The emergence of inflationary pressures in China suggests that growth there may be restrained in the near future. Very low real interest rates in the US, Japan and Europe are exerting a powerful stimulatory force, both for companies considering capital expenditure and for investors considering the opportunity cost of buying risky assets.

How do you see the outlook for investors this year?

The bottom line for investors in 2011 is a continuation of the heightened uncertainty about economic growth and returns on risky assets, that has marked the post GFC period. The long-term investment outlook for investors in Australian **ethical's** products, however, remains robust. The US economy has powerful demographic forces underpinning its future growth prospects. The economic development of China and India has far to go. Shunning carbon risk, investing in smaller ethical companies and investing selectively in renewable energy and efficiency remain smart strategies.

James Jordan

Chief Investment Officer

Low super balance?

You should consider consolidating your other super accounts with us. See the rollover form at www.australianethical.com.au or phone us on 1800 021 227.

climate ADVOCACYfund

The Climate Advocacy Fund officially announced and submitted resolutions to the AGMs of Aquila Resources, Paladin Energy, Oil Search and Woodside Petroleum. The resolutions targeted gaps in knowledge and preparedness of companies to manage the long-term risk of climate change. Paladin and Aquila held their AGMs in November 2010. Information on the resolutions was sent out to 25,000 Paladin shareholders and 4,000 Aquila shareholders in AGM reports. Whilst they did not put the resolutions to their AGMs they have both indicated that they will provide greater disclosure around carbon emissions. Oil Search and Woodside will be holding their AGMs in the first half of 2011. Oil Search has already indicated they will allow the resolutions to be voted on at the AGM.

Investment briefs

The star over the quarter was undoubtedly Australian wound healing company **Tissue Therapies** which rose 206%.

The company develops biomedical technologies for wound healing, tissue repair and various cell culture applications. It has exclusive rights to commercialise VitroGro, a synthetic animal product-free platform technology with applications in research, industrial, pharmaceutical, clinical and medical markets. The company has also developed a human live skin model for simulating skin injuries and healing and potentially for testing cosmetics, reducing the requirement for cruel animal testing.

Pharmaxis was another strong performer rising 37%. This company is a specialist pharmaceutical company established to research, develop and bring to market human therapeutic products to treat chronic respiratory and autoimmune diseases. Chronic obstructive pulmonary disease encompasses a number of serious conditions affecting the lungs (pulmonary system), including emphysema, chronic bronchitis and bronchiectasis.

In our international portfolio, efficient transport stocks **Shimano** and **Genesee & Wyoming** performed well.

Shimano produces high quality bicycle components. Cycling improves the health of riders, reduces traffic congestion and is a low polluting activity.

Genesee & Wyoming provides rail-freight transportation and supporting services in the United States, Canada, the Netherlands, Bolivia and Australia. Rail is one of the most environmentally friendly forms of freight transport when compared to road, sea and air freight.



Tissue Therapies



Pharmaxis



Genesee and Wyoming

Returns to 31 December 2010

Super

	6 month return (%)	1 year return (%)	3 year return (% pa)	5 year return (% pa)	10 year return (% pa)	Since inception (% pa)
Conservative	3.8	–	–	–	–	3.9
Balanced	3.8	1.9	–2.5	1.2	5.0	5.8
Growth	4.8	–2.7	–6.4	–0.4	4.8	7.7
Defensive	2.4	4.4	3.9	4.1	4.0	4.0
Climate Advocacy	6.6	–	–	–	–	4.9
Smaller Companies	14.2	3.9	1.0	7.1	7.2	9.6
International Shares	–3.2	–6.2	–11.8	–	–	–10.3

Pensions

	6 month return (%)	1 year return (%)	3 year return (% pa)	5 year return (% pa)	10 year return (% pa)	Since inception (% pa)
Conservative	3.3	–	–	–	–	2.0
Balanced	4.6	2.7	–2.8	1.3	5.5	6.2
Growth	5.9	–2.3	–7.1	–0.4	5.0	6.7
Defensive	2.8	5.1	4.6	4.7	5.0	4.9
Smaller Companies	15.9	4.4	0.4	7.7	7.7	9.8
International Shares	–3.5	–7.3	–14.2	–	–	–12.3

Managed funds

	6 month return (%)	1 year return (%)	3 year return (% pa)	5 year return (% pa)	10 year return (% pa)	Since inception (% pa)
Balanced	4.8	2.6	–2.8	1.2	5.4	6.5
Smaller Companies	16.1	4.5	1.1	7.8	7.5	9.8
Climate Advocacy Fund	9.4	–	–	–	–	8.8
Larger Companies	5.5	–2.8	–7.2	–0.6	4.8	7.7
International Equities	–3.9	–6.8	–13.1	–	–	–10.8
Property	1.6	12.9	–	–	–	2.6
Income	2.7	5.1	4.5	4.8	4.8	4.6

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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 trust or super fund expenses. For the super fund, total returns are based on an investment of \$10,000 at the inception of each strategy. Performance figures for each strategy assume an investment in that strategy only. For the trusts, total returns 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. For the super fund, total returns are calculated taking into account taxation on super fund earnings and capital gains. Neither the return of capital nor the performance of a trust or the super fund is guaranteed. Figures showing a period of less than one year have not been adjusted to show an annual total return. The latest available performance figures can be obtained from our website or by calling 1800 021 227. Units in the trusts are offered and issued by Australian Ethical Investment Ltd ('AEI') ABN 47 003 188 930, AFSL 229949. Interests in the super fund are offered by AEI and issued by the trustee of the fund, Australian Ethical Superannuation Pty Ltd ABN 43 079 259 733, RSEL L0001441. The PDS should be read before making an investment decision.