



australian**ethical** super
ANNUAL REPORT
TO MEMBERS

Year ended 30 June 2010

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australian**ethical**[®]
investment + superannuation

From Phillip Vernon

Managing Director

Australian Ethical Investment

It has been an exciting year for our super fund and for me in my first year as managing director. We have created a better fund for members, with lower contribution and rollover fees and more investment and insurance options. We have also changed the names of some of our existing super options to better describe the types of investments they hold.

A better fund

During the year, we introduced two new investment options – Conservative and Climate Advocacy. These new options provide members with lower fee alternatives and greater investment choice across the risk/return spectrum. We also reinvigorated our existing Large Companies Share option, renaming it to Growth and including asset exposure to sustainable property. We now have a strong and well diversified range of investment options catering for differing member needs and life stages.

Two of our investment options now also have exciting focuses:

International Shares is themed on global **smartenergy** – a focus on international investments that either contribute to a sustainable energy supply or which reduce energy demand.

Climate Advocacy is an index-based, low fee option which aims to improve corporate behaviour, performance and sustainability through advocacy. The Climate Advocacy Fund recently lodged with four ASX-listed companies climate focused resolutions for consideration as part of their annual general meeting process.

On behalf of all of us at Australian Ethical, I look forward to working toward our shared goals and meeting your retirement savings needs into the future.

Phil Vernon

Fund performance and the markets

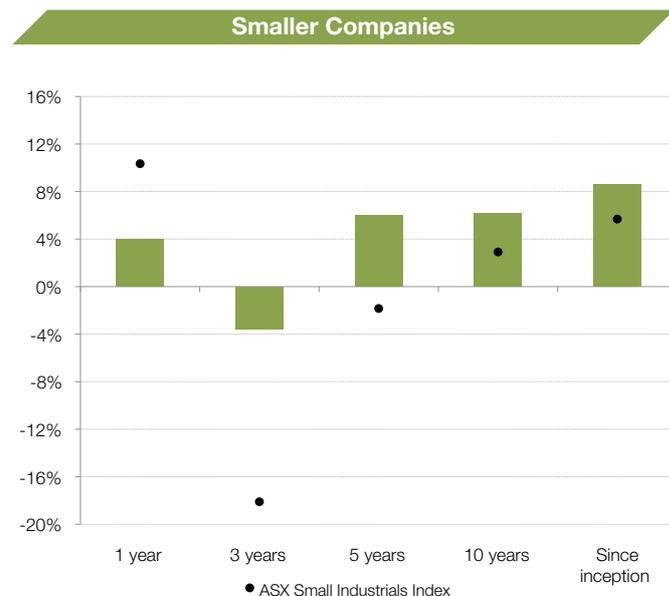
Market performance and sentiment

The first quarter of 2009–10 saw investment markets across the world continue to rebound from their lows set in early March 2009. Following that recovery phase, market conditions reflected high uncertainty about the economic future. Looking forward, the outlook for the global economy is widely perceived to be more uncertain than it was before the global financial crisis. We continue to manage your super using the ethical approach that has served our investors well for the past 24 years.

Fund performance

Most of our options delivered positive returns during 2009–10. Those options with high exposure to share markets did not perform as strongly as the main share market benchmarks. This is the flip-side of the comparatively smaller losses experienced by our super options during the global financial crisis. Our long-term returns across our investment options remain highly competitive with their benchmarks –

our Smaller Companies option especially has an outstanding record of outperformance, looked at over three, five or ten years.



Investment options

Defensive

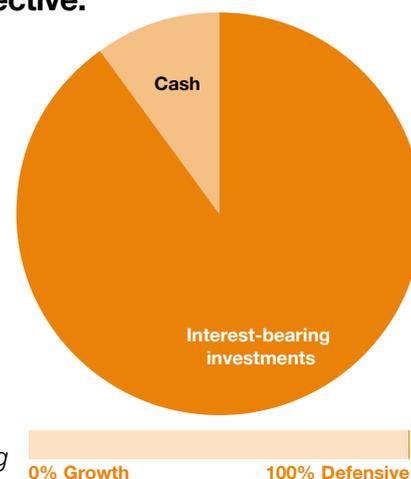
Performance objective:

Over 6 to 12 months, achieve returns equal to inflation

Likelihood of a negative return:

Negligible if long-term trends are repeated.

Six increases in interest rates by the Reserve Bank generated increased returns in the underlying asset class.



Conservative

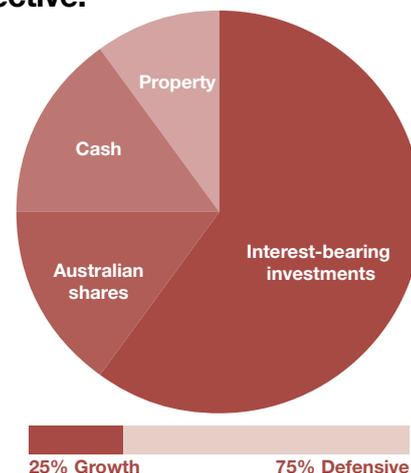
Performance objective:

Over 3 to 5 years, achieve returns 1–2% above inflation

Likelihood of a negative return:

1 in 10 years if long-term trends are repeated.

Commenced 17 May 2010, return from inception to 30 June 2010 of 0.1%



Investment options

Previous name	New name	Objective
Income Strategy	 Defensive	A very low risk option focused on preservation of capital with high grade investments earning regular income.
	 Conservative	A low risk option focused on income producing assets with some growth assets to protect against inflation.
Balanced Strategy	 Balanced	A diversified option offering a balance between capital growth and investments that generate moderate levels of income.
Large Companies Share Strategy	 Growth	A long-term, growth focused option holding investments in Australian and international companies, in sustainable property and with some income generating investments.
Equities Strategy	 Smaller companies	A long-term, growth focused option holding investments in smaller Australian and international companies.
World Strategy	 International shares	A long-term, growth focused option holding investments in international companies – global smart energy theme.
	 Climate Advocacy	An indexed investment option aiming to deliver returns consistent with the broad Australian share market index, while providing an avenue for active engagement with the companies that are included in that index.

Balanced

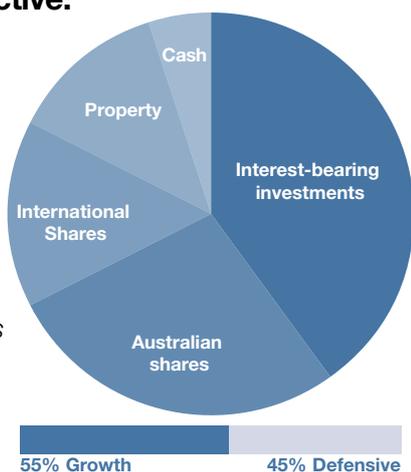
Performance objective:

Over 3 to 5 years, achieve returns 2.5–3.5% above inflation

Likelihood of a negative return:

1 in 7 years if long-term trends are repeated.

Fixed interest asset class holdings performed strongly over the year. Higher than typical stake in healthcare investments meant less gain in the share market rebound, which benefitted mainly the miners and larger banks.



Smaller Companies

Performance objective:

Over 5 to 7 years, achieve returns 5–6% above inflation

Likelihood of a negative return: 1 in 4 years if long-term trends are repeated.

Excellent 2008–09 performance eased in the year due to higher exposure to defensive investments in healthcare and utilities. The option outperformed its benchmark over the last nine months of the year.



Growth

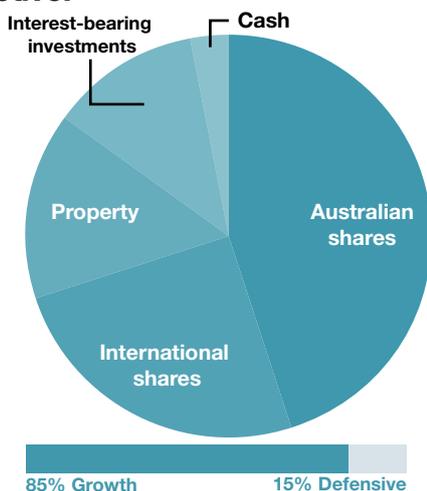
Performance objective:

Over 5 to 7 years, achieve returns 3.5–4.5% above inflation

Likelihood of a negative return:

1 in 5 years if long-term trends are repeated

A defensive bias contributed to underperformance during the year.



International Shares

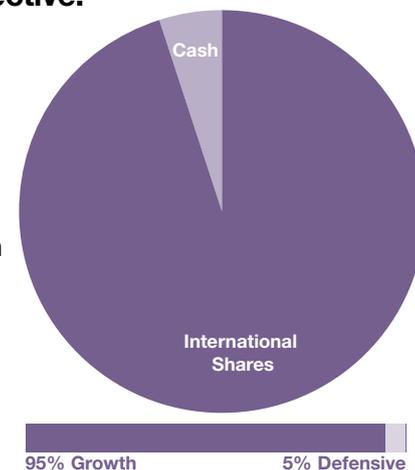
Performance objective:

Over 5 to 7 years, achieve returns 4–5% above inflation

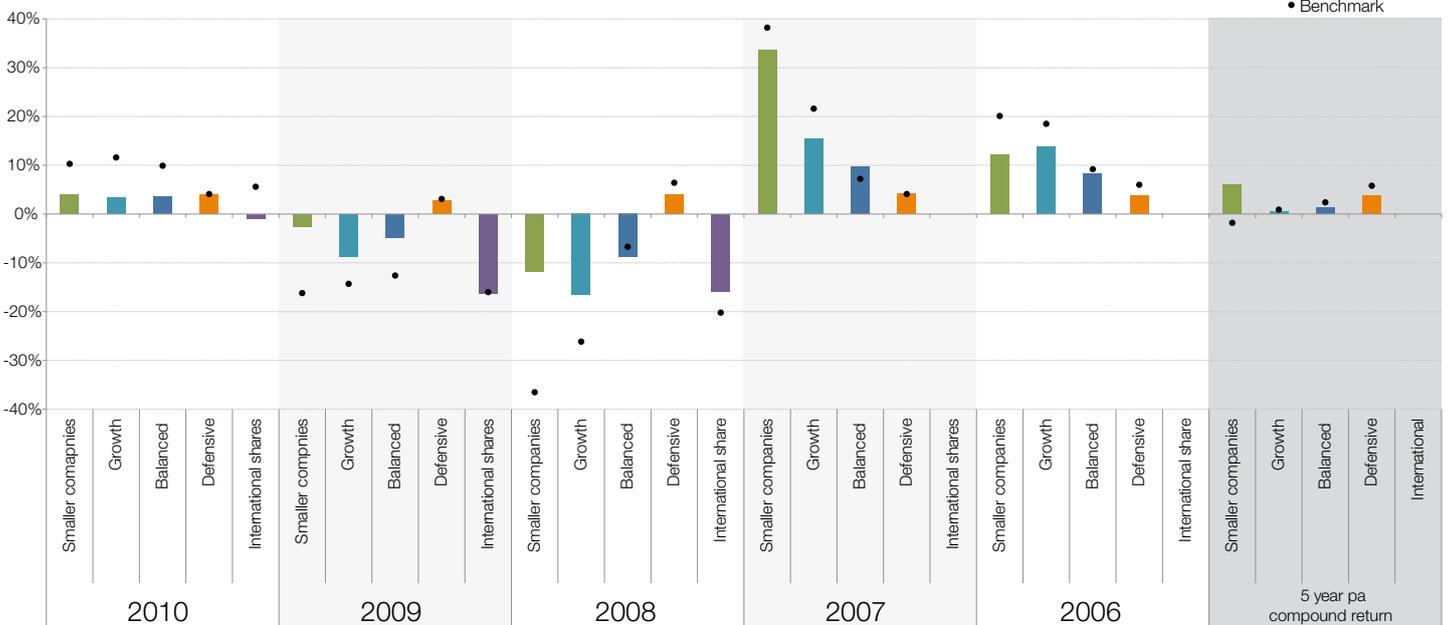
Likelihood of a negative return:

1 in 4 years if long-term trends are repeated.

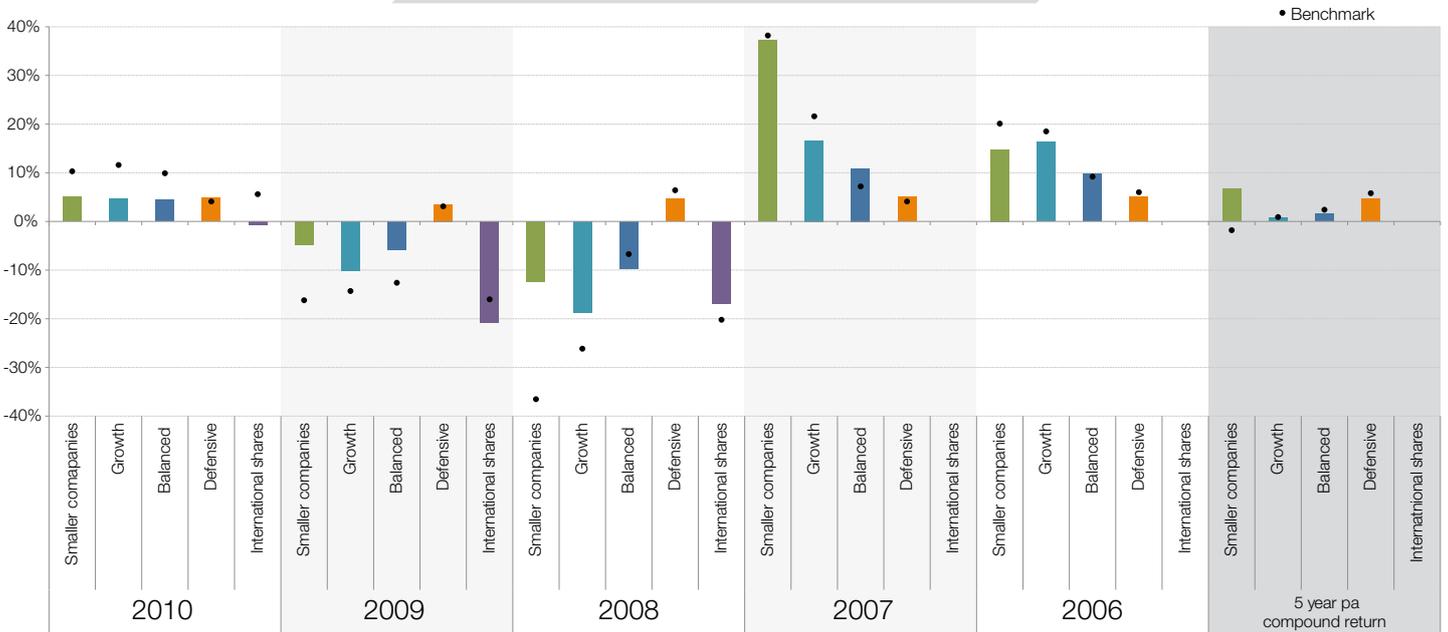
Renewable energy investments were subdued leading to underperformance, but also offering good buying opportunities.



Super Accumulation - Total Returns



Pension - Total Returns



Climate Advocacy

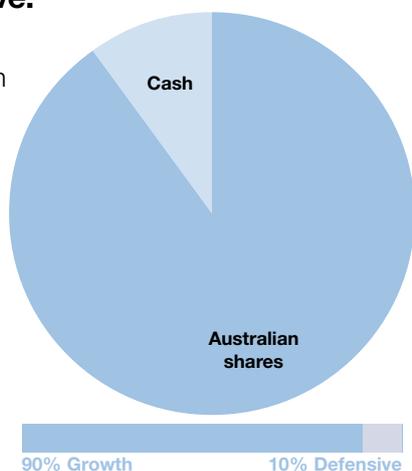
Performance objective:

Over 5 to 7 years, achieve returns 3–4% above inflation

Likelihood of a negative return:

1 in 7 years if long-term trends are repeated

Commenced 17 May 2010, return from inception to 30 June 2010 of -1.7%.



Binding death nominations

We recently introduced for our members the ability to make binding death nominations. Binding nominations can provide you with greater certainty on who will receive your superannuation benefit in the event of your death. For more information visit our website or call 1300 134 337.

New income protection insurance

From 1 July this year, the fund has offered two additional benefit payment periods for income protection insurance – five year and up to age 65. Please see our product disclosure statement if you are interested in these insurances or call 1300 134 337.

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.australianethical.com.au or by calling 1300 134 337.

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 2009–10 financial year.

Investment managers

The trustee uses Australian Ethical Investment Ltd. as its investment manager. More than 5% of the fund's assets were invested in Australian Ethical's funds during the year.

Derivatives

The Australian Ethical Retail Superannuation Fund does not directly 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 884 114.

The Australian Taxation Office also has a superannuation hotline and can be contacted on 13 10 20.

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 and they 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 option and members' funds are updated in line with the movement in their investment option unit price. Movements in unit price reflect movements in the value of an investment option's assets as well as amounts payable by the investment option for fees and expenses.

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@australianethical.com.au
www.australianethical.com.au

Accounts

The Australian Ethical Retail Superannuation Fund financial statements for the year to 30 June 2010 are shown in abridged form below. A copy of the full accounts and the auditor's report is available to members upon request. Phone 1300 134 337 if you would like a copy mailed to you.

Operating statement

for the year ended 30 June 2010

	2010 \$	2009 \$
Investment revenue		
Interest	297,303	363,724
Distributions	7,230,244	5,274,402
Changes in net market values	4,830,752	(19,573,721)
Direct investment expense	(141,255)	(59,021)
Net investment revenue	12,217,044	(13,994,616)
Contributions revenue		
Employer contributions	28,226,825	27,906,370
Members' contributions	6,473,065	7,245,130
Transfers in	13,315,620	9,652,117
Total contribution revenue	48,015,510	44,803,617
Other revenue		
Management fee rebate	6,146,928	5,180,629
Other revenue	359,707	14,215
Total other revenue	6,506,635	5,194,844
Total revenue	66,739,189	36,003,845
Less		
General administration expenses	8,762,579	7,752,197
Surcharge tax expense	2,068	5,459
Total expenses	8,764,647	7,757,656
Benefits accrued before income tax	57,974,542	28,246,189
Less income tax expense	6,350,448	1,695,147
Benefits accrued as a result of operations	51,624,094	26,551,042

Statement of financial position

as at 30 June 2010

	2010 \$	2009 \$
Investments		
Shares in listed corporations	1,008,050	
Units in Australian Ethical Investment unit trusts	323,668,648	295,917,084
Units in Australian Ethical Property Trust	304,392	
Total investment assets	324,981,090	295,917,084
Other assets		
Cash at bank	11,607,730	10,053,167
Other receivables	5,926,709	2,182,733
Deferred tax asset	3,617,904	6,302,358
Total other assets	21,152,343	18,538,258
Total assets	346,133,433	314,455,342
Less liabilities		
Accounts payable	874,021	1,500,600
Current tax liability	1,179,566	933,233
Deferred tax liability	-	-
Total liabilities	2,053,587	2,433,833
Net assets available to pay benefits	344,079,846	312,021,509
Liability for accrued benefits		
Allocated to members' accounts	344,037,399	311,946,635
Unallocated to members' accounts	42,447	74,874
Total	344,079,846	312,021,509

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