australianethical
investment + superannuation

Market review and current investment environment

February 2012

2011 was a tough year for equity markets. This was mainly due to doubts about the ability of European countries to steer a path between fiscal austerity and economic growth that would allow them to deal comfortably with elevated debt levels. Investment returns in 2011 reflected these doubts and, outside the US at least, proved more powerful than the policies of the US Federal Reserve.

The global market index, the MSCI World Accumulation Index, fell by 5 per cent (in terms of the Australian dollar). Confidence in the world economic outlook led to a drop in confidence in share investing, especially over the second half of the year.

Australia was not immune to the effect of this negative sentiment with the broad domestic market index, the S&P/ASX 300 Accumulation Index, falling 11 per cent for the year. During the year the economy was helped by stronger terms of trade – the relative pricing of Australia's exports and imports – that enabled real net national disposable income to grow by 6 per cent for the year to September 2011. This is considerably stronger than the more often quoted GDP growth, which grew by only 2.5 per cent over the same period.

The flip side has been the continuation of the so-called 'two-speed economy' that has seen a weakening of south-eastern state economies to make room for strong private investment in resource rich areas. Despite this supposed strength, even resource stocks fell foul of the poor sentiment resulting in negative returns for 2011.

There are positive signs emerging already in 2012 for an improvement in Europe and US markets, however it is early days and there are still many issues for the global markets. Nevertheless there are some bright spots on the horizon with European debt restructuring, stronger US employment figures and China tipped to have a soft landing.

Ethical Investments

Australian Shares

Within your super fund the Conservative, Balanced and Growth investment options, as well as the Smaller Companies Trust, invest in Australian equities (see australianethical.com.au/investment-strategies-individuals).

Our flagship fund, the Smaller Companies Trust fell 12.5 per cent in the year to 31 December 2011. Not investing in the resources sector, which underperformed our range of ethical investments, had a positive impact on fund performance. However not investing in some of the big banks as well as the strengthening Australian dollar had the opposite effect.

The Smaller Companies Fund won Ethical Fund of the Year at the 2011 Sustainability Awards, recognition that it was the best amongst its peers despite the toughness of the market.

Overseas Shares

Within your super fund the Balanced and Growth investment options, as well as the Smaller Companies Trust and International Equities Trust, invest in overseas equities (see australianethical.com.au/investment-strategies-individuals).

2011 was an extremely tough year for overseas renewable energy and energy efficiency companies due to a loss of confidence in these sectors. This resulted in an overall fall of 22.6 per cent for the International Equities Trust, which is themed around smart energy solutions.

Confidence in renewable energy has started to turn in 2012 and our international shares are posting significant positive returns already, reflecting our belief in the long-term value of this sector.

Market review and current investment environment

February 2012

Other asset classes

Within your super fund all investment options invest in one or more non-equity asset classes, including property, fixed interest and cash (see australianethical.com.au/investment-strategies-individuals).

In non-equities asset classes, the addition of Lawley House in Canberra to the property portfolio and the introduction of longer-term fixed interest investments over the last 12 months strengthened the Conservative, Balanced and Growth super strategies.

Looking ahead

We continue to expect our equity investments to deliver superior returns over longer investment periods. This is due to our philosophy of investing in well-valued ethical companies that are driving positive social and environmental outcomes with their products and services. Our investments include Australian companies like:

- **Pharmaxis**: a pharmaceutical business developing products for the treatment of asthma and chronic obstructive pulmonary disease. Recent European Union approvals have paved the way for strong regional sales during the back end of 2012 and beyond.
- **Energy Developments**: a low emissions power generation and carbon abatement company using landfill and waste methane gas. This company is demonstrating stable cash flows and is expanding into the US.
- **Technology One:** a software company providing innovative and efficient financial and enterprise resource planning solutions for medium to large companies and governments. It is a high quality business with strong cash flows and dividends.

Your super investments with Australian Ethical remain well placed to take advantage of a renewed confidence and increased shift towards renewable energy and energy efficiency over the long term, as well as biotechnology and IT companies.

We have a strong, experienced and stable team of ethical researchers and investment analysts building an enviable track record in this sector. We look forward to generating stronger positive returns for our investors over the coming years on the back of a gradual improvement in market sentiment.