

# Australian Ethical Super Annual Report

*Year ended 30 June 2013*

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# A good year for shares



*By David Macri, Chief Investment Officer*

Equity markets globally performed strongly over the past 12 months and this was reflected in our returns. We benefited from avoiding companies servicing the resources industry and by holding IT stocks that performed very strongly.

Equity markets globally performed strongly over the 12 months ending 30 June 2013, spurred on by improving market conditions.

Global shares outperformed bonds, with the MSCI World Index (in local currencies) returning 21.4%, significantly outperforming bond markets which fell 2.2% as measured by the Barclays Global Aggregate Index (in local currencies).

The Australian dollar fell 11% versus the US dollar over the year which boosted the performance of international equities for Australian investors to 32.8% as measured by the MSCI World Index (in Australian dollars unhedged).

The Australian equity and bond markets followed suit with the S&P/ASX 200 Accumulation Index returning 22.8% and the UBS Composite Bond Index returning a lowly 2.8%. There was wide divergence within the equity market as the resources sector fell 7% while the rest of the market rose a stellar 33%. Large caps (the largest 50 listed companies in Australia) returned 24.5%, significantly outperforming small caps (companies outside the top 200 on the Australian Stock Exchange) which returned -5.3%.

All of our funds with equity exposure performed strongly over the year.

We benefited from avoiding companies servicing the resources industry and by holding IT stocks that performed very strongly.

The International Shares super investment option was our strongest performer returning 25.1%.

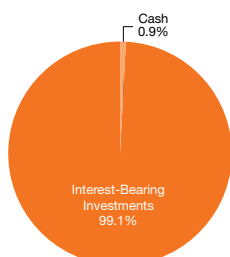
# Investment options

## Asset Allocations(%)\* to 30 June 2013

### Defensive

**Performance objective:**  
Over 1 year, achieve returns equal to inflation

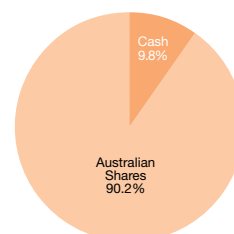
**Risk measure:**  
Very low



### Smaller Companies

**Performance objective:**  
Over 5 to 7 years, achieve returns 5–6% above inflation

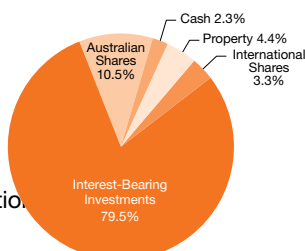
**Risk measure:**  
High



### Conservative

**Performance objective:**  
Over 2 to 5 years, achieve returns of 0.5–1.5% above inflation

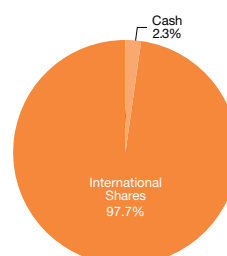
**Risk measure:**  
Low to medium



### International Shares

**Performance objective:**  
Over 5 to 7 years, achieve returns 4–5% above inflation

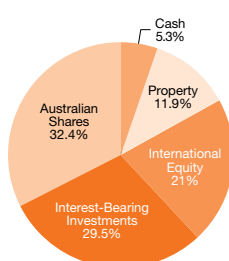
**Risk measure:**  
High



### Balanced (accumulation)

**Performance objective:**  
Over 4 to 6 years, achieve returns 3–4% above inflation

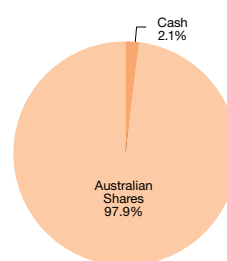
**Risk measure:**  
Medium



### Advocacy Fund

**Performance objective:**  
Over 5 to 7 years, achieve returns 4–5% above inflation

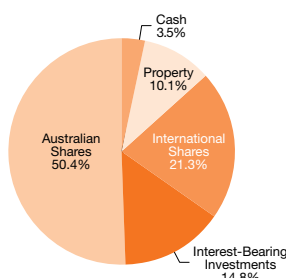
**Risk measure:**  
High



### Growth

**Performance objective:**  
Over 5 to 7 years, achieve returns 3.5–4.5% above inflation

**Risk measure:**  
Medium to high



\* The strategic asset allocation for the Accumulation and Pension options are the same, however the actual asset allocations do vary. Please refer to the Australian Ethical website for the asset allocations for the Pension options. Some asset allocations don't total 100% due to rounding.

Risk measures are based on the Standard Risk Measure Guidelines issued by the FSC and ASFA

## Returns to 30 June 2013

<b>Super</b>	<b>1 year return (%)</b>	<b>3 year return (%p.a.)</b>	<b>5 year return (%pa)</b>	<b>10 year return (%pa)</b>	<b>Since inception (%pa)</b>
Defensive	2.3	3.5	3.6	4.0	3.8
Conservative	5.8	4.4	n/a	n/a	4.3
Balanced (accumulation)	11.5	4.7	2.5	4.6	5.5
Smaller Companies	21.1	8.0	5.1	8.6	8.7
Advocacy	20.0	6.5	n/a	n/a	5.7
Growth	16.9	4.3	1.4	5.5	7.0
International Shares	25.1	0.4	-3.2	n/a	-5.5
<b>Pension</b>	<b>1 year return (%)</b>	<b>3 year return (%p.a.)</b>	<b>5 year return (%pa)</b>	<b>10 year return (%pa)</b>	<b>Since inception (%pa)</b>
Defensive	4.1	4.6	4.5	4.8	4.8
Conservative	6.3	4.7	n/a	n/a	4.1
Balanced (pension)	13.4	5.9	3.2	5.3	6.0
Smaller Companies	25.9	10.6	6.3	9.8	9.2
Growth	21.1	6.1	2.4	6.2	6.4
International Shares	26.9	-0.2	-4.7	n/a	-6.9

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. The annual member fee is not included.

The 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.

The total returns are calculated taking into account taxation on super fund earnings and capital gains. Neither the return of capital nor the performance of 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 1300 134 337.

Interests in the super fund 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. The PDS should be read before making an investment decision.

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# 2013 Community Grants



As prescribed in Australian Ethical's constitution, 10% of our profit is donated to charitable, benevolent and conservation purposes as part of our contribution to a positive and sustainable society. This is one of the highest levels of corporate giving in Australia based on percentage of profits. It is something that the shareholders, staff and directors should be very proud of.

This year, grant applications were received by an excess of 300 organisations across a range of humanitarian, environmental and animal welfare organisations. The majority of the applications were of high quality, suited our selection criteria, and adhered to our Australian Ethical Charter and therefore made the task of determining a short list, for voting by staff and shareholders, extremely hard.

Voting was again strong and this year leaned heavily towards humanitarian projects (in stark contrast to last year's skew to wildlife conservation). Australian Ethical will be donating \$117,300 to a total of 11 organisations, bringing the total amount donated over the past 13 years to almost \$1.5 million.

This year's grants range in size from \$4,000 to \$30,000 and over half of the projects will be fully funded by Australian Ethical. Recipient groups have a strong focus on efficiently delivering tangible outcomes.

In addition to their grant, all recipients will receive a free two-year subscription to the Centre for Sustainable Leadership's (CSL) Leadership Rewired online training package. In addition, we plan to work with our clients to help crowdsource the remaining funding for the grant recipients that we were unable to fully fund.



## Major grant recipients

### **Asylum Seeker Centre – Employment assistance scheme**

This project will assist asylum seekers to find meaningful and fairly paid employment aligned with their skills and experience. A grant will be used to employ an officer to train and support a team of skilled volunteers coaching asylum seekers. Part of it will also be used for microfinance loans to members of the community.

[www.asylumseekerscentre.org.au](http://www.asylumseekerscentre.org.au)

### **East Timor Women Australia (ETWA) – Fair futures for women & girls in Timor-Leste**

ETWA aim to empower women involved in producing naturally dyed hand-woven textiles in Timor-Leste. This project will establish fair trade standards, sustainable cultivation of organic cotton and dye plants, supply-chain sustainability, weaving school and design collaboration.

[www.etwa.org.au](http://www.etwa.org.au)

## The 2013 allocation

Organisation	Project	Grant	
Street Swags	80 street swags	\$4,800	Project fully funded
Free to shine	Scholarship for girls at risk	\$9,000	Project fully funded
Asylum Seeker Centre	Employment assistance program	\$30,000	Project fully funded
East Timor Women Australia	Fair futures for women & girls in Timor-Leste	\$30,000	Partially funded
Kokoda Track Foundation	Lighting Up Papua New Guinea	\$10,000	Project fully funded
Communities @ Work	The Yellow Van food rescue	\$4,000	Project fully funded
Inanna	Comforting kids	\$5,000	Project fully funded
40K Foundation Aust	40K PLUS	\$7,250	Partially funded
Australian Conservation Foundation	100% renewable ready - clearing the barriers to change	\$7,250	Partially funded
Primary Ethics	Delivery of ethics classes	\$5,000	Partially funded
The Orangutan Project	Wildlife Protection Units	\$5,000	Partially funded

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# Changes to your super fund

## *Fund administration*

We use a third party to provide administration services for the Australian Ethical Super Fund. These services include processing contributions, making benefit payments and generally managing the administration of the Fund.

The project to move the Fund's administration to Russell has been successfully completed this year with minimal impact on members.

## *MySuper*

You may have heard about the Commonwealth Government's MySuper initiative (see [strongersuper.treasury.gov.au](http://strongersuper.treasury.gov.au)). From 1 July 2013, funds are able to offer a simple, cost-effective default superannuation product called MySuper to improve the simplicity, transparency and comparability of default superannuation products.

On 16 September 2013 Australian Ethical Superannuation was granted approval to offer a MySuper product by the Australian Prudential Regulation Authority ('APRA').

Employers will be able to contribute to our MySuper product for their employees who have not made a choice about where their superannuation contributions should be paid.

## *Insurance improvements*

From 9 March 2013 the Fund provided automatic death & total and permanent disablement insurance to all members, on an opt out basis. This insurance is provided through our group insurer MetLife.

In addition, a number of other important improvements were introduced to our insurance arrangements:

- Transfer in terms – members wishing to rollover to the Fund are (in most circumstances) able to obtain the same level of insurance cover, with minimal underwriting, as they have outside the Fund;
- Members have the ability to increase their insurance cover upon a life event with minimal underwriting;
- There is unlimited death cover and higher levels of terminal illness and TPD cover (subject to underwriting);
- TPD coverage has been extended to age 70 (from the previous limit of age 65);
- Online insurance capabilities – including the ability to lodge insurance applications online.

## *Investment Option Changes*

### **Balanced (accumulation)**

The asset allocation for our Balanced (accumulation) investment option was changed in March 2013. The asset allocation was not changed for the Balanced (pension) investment option.

The change increased the allocation of growth assets (like shares and property) for the Balanced (accumulation) investment option, from 55% to 65%. This change was made so that our default investment option has a more appropriate long-term asset allocation for our members, the majority of whom are under the age of 40.



## Advocacy

The Advocacy accumulation investment option changed its name from the Climate Advocacy to Advocacy, reflecting the broader range of issues that the Advocacy Fund is now capable of dealing with. Additionally this option now invests through Australian Ethical's Larger Companies Trust to obtain exposure to a range of ethically screened domestic and international shares.

## Operational Risk Reserve

During the year the Government introduced a new requirement for super funds to establish an operational risk reserve. The reserve is intended to protect member benefits by ensuring funds have adequate financial resources to address losses arising from operational risks. An operational risk is the risk of a failure of internal processes, people and systems, such as unit pricing errors and fraud.

In March 2013 we established a reserve allocating 0.083% p.a. of all assets to the reserve until the target level of 0.25% is reached over the next three years. These costs are not deducted directly from your account. They are deducted from the value of the Fund and are reflected in the unit price.

Whilst the reserve will help to protect member benefits from significant operational risks, the reserve will not be attributed to member's individual accounts and will not be reimbursed when a member exits the Fund.

## Fee changes

Fees were changed from 9 March 2013.

There is a new 'APRA Levy' (0.031% pa) which goes to APRA (Australian Prudential Regulation Authority) – the government agency that regulates Super. Administration and Investment management fees also changed, and may be more or less for you depending on the investment options you have chosen.

We have reduced our fees significantly over the last five years, and our fee level is competitive when compared to other 'actively' managed super funds.

For full details on these changes, please read the 'Significant Event Notice' that was issued to all members in January 2013. It is available at [australianethical.com.au/SEN-jan2013](http://australianethical.com.au/SEN-jan2013)

## Treatment of lost member accounts and unclaimed monies

During the year the Commonwealth government announced changes to the treatment of lost accounts and unclaimed superannuation monies. The key point that emerged from these changes is that you should make sure that the Fund has up to date contact details for you. If you become uncontactable, the Fund may need to transfer your superannuation benefit to the Australian Taxation Office (ATO) and this could have implications for you (such as the loss of insurance coverage).

The changes require the Fund to transfer accounts on the Lost Members Register to the ATO where the account balance is \$2000 or less (previously the threshold was \$200). Most commonly, a member in the Fund will be placed on the Lost Members Register when two pieces of correspondence have been returned to the Fund. A member may also be placed on the Lost Members Register if their account has been inactive for an extended period. So again, make sure you know where your super is and make sure we know how to contact you.

# Accounts

The Australian Ethical Retail Superannuation Fund financial statements for the year ended 30 June 2013 are shown in abridged form below. A copy of the full accounts and the auditor's report is available to members upon request. Please phone 1300 134 337, if you would like a copy mailed to you.

## *Operating statement*

for the year ended 30 June 2013

<b>Investment revenue</b>	<b>2013 \$</b>	<b>2012 \$</b>
Interest	218,773	405,965
Distributions	11,019,259	8,794,671
Changes in net market values	50,557,355	(13,863,858)
Direct investment expense	91,896	(176,639)
<b>Total investment revenue</b>	<b>61,887,283</b>	<b>(4,812,861)</b>

<b>Contributions revenue</b>		
Employer contributions	32,961,896	32,639,941
Member contributions	5,202,961	3,633,042
Transfers in	16,520,188	16,223,678
<b>Total contribution revenue</b>	<b>54,685,045</b>	<b>52,496,661</b>

<b>Other revenue</b>		
Management fee rebate	6,917,722	6,473,306
Other revenue	233,433	234,483
<b>Total other revenue</b>	<b>7,151,155</b>	<b>6,707,789</b>

<b>Total Revenue</b>	<b>123,723,483</b>	<b>54,391,589</b>
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<b>Less:</b>		
General administration expenses	11,919,669	9,760,722
Auditor's remuneration	-	32,750
Surcharge tax expenses	2,127	1,174
<b>Total expenses</b>	<b>11,921,796</b>	<b>9,794,646</b>

<b>Benefits accrued as a result of operations before income tax</b>	<b>111,801,687</b>	<b>44,596,943</b>
Income Tax Expense	10,975,824	541,407
<b>Benefits accrued as a result of Operations after income tax</b>	<b>100,825,863</b>	<b>44,055,536</b>

## Statement of financial position

as at 30 June 2013

<b>Investments</b>	<b>2013 \$</b>	<b>2012 \$</b>
Units in Unlisted Unit Trusts	452,156,511	379,971,002
<b>Total Investment Assets</b>	<b>452,156,511</b>	<b>379,971,002</b>

<b>Other Assets</b>		
Cash and cash equivalents	11,872,547	8,054,231
Trade and other receivables	6,072,949	6,102,611
Deferred Tax Asset	323,212	5,545,026
<b>Total Other Assets</b>	<b>18,268,708</b>	<b>19,701,868</b>

<b>Total Assets</b>	<b>470,425,219</b>	<b>399,672,870</b>
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<b>Liabilities</b>		
Trade and other payables	1,783,432	1,647,952
Unsettled Investment Trades	1,918,033	-
Current Tax Liabilities	1,979,110	792,854
Deferred Tax Liabilities	1,577,930	-
<b>Total Liabilities</b>	<b>7,258,505</b>	<b>2,440,806</b>

<b>Net Assets available to pay Benefits</b>	<b>463,166,714</b>	<b>397,232,064</b>
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<b>Liability for Accrued Benefits</b>		
Allocated to Members' Accounts	461,376,846	397,217,831
Unallocated to Members' Accounts	1,464,572	14,233
Operational risk financial reserve	325,295	-
	<b>463,166,713</b>	<b>397,232,064</b>

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# Things you should know

## *Indemnity insurance*

The Trustee is covered by indemnity insurance to protect it from losses arising from claims against it. The insurance has been provided by QBE Insurance (Australia) Ltd throughout the 2012–13 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 on the back cover.

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.

## *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.

## *Eligible rollover fund*

An eligible rollover fund is a fund established under superannuation law which accepts benefits of members from other funds in certain circumstances.

Australian Ethical Superannuation has chosen the Australian Eligible Rollover Fund as its eligible rollover fund. A member of our fund may be transferred to the eligible rollover fund:

- if they are a lost member with a balance of less than or equal to \$1000;
- if they are a lost member with a balance of more than \$5000, where they have been a lost member for a period of five years or more;
- if they have a balance of less than \$3000 and no contribution has been received from or on behalf of the member for a period of two years.

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.

We will attempt to contact relevant members before they are transferred to the eligible rollover fund.

Being transferred to the Australian Eligible Rollover Fund may affect your benefits because you will cease to be a member of the Australian Ethical Retail Superannuation Fund. If you hold insurance cover through the Fund, this insurance will cease. A member transferred to the eligible rollover fund will be subject to the governing rules of that fund and a different fee structure and investment strategy will apply. If your benefit is transferred to the eligible rollover fund, you may require the following contact details:

**Australian Eligible Rollover Fund**  
Locked Bag 5429  
Parramatta NSW 2124  
1800 677 424



## Contact us

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Facebook:	<a href="https://facebook.com/australianethical">facebook.com/australianethical</a>
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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 [australianethical.com.au](http://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.

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