

australian**ethical**

# AIM HIGH

Winter 2011

A strong performer  
**Smaller Companies Trust**

Coming to a road near you  
**Electric vehicles**

A power saving tool  
**Transition to retirement**

Winds of change  
**Community owned windfarm**

## A strong performer – Smaller Companies Trust

Our Smaller Companies Trust has developed as an established performer and is one of our most popular investment options. Investors can access the Smaller Companies fund through both our super fund and directly as a managed fund.

### Q&A with Portfolio Manager Andy Gracey

Andy has worked at Australian Ethical since December 2004. He, along with a team of share analysts are responsible for managing the fund's \$255 million.

### Who invests in the Smaller Companies Trust?

The fund suits investors who are looking to make a longer term investment. Its investors are keen to focus their money in smaller more dynamic companies. Often smaller companies are involved in innovative new technologies which have the potential for growth.

### How has the fund performed over its lifetime and how does it compare with its competitors?

Investing in smaller, high growth companies can be a bumpy ride. Despite this, over its 16 year history the fund has returned 9.8% per annum. According to research by Mercer, it is the strongest performing fund in its peer group.

### Online cash accounts have high interest rates at the moment; are they better than managed funds that invest in shares?

Cash at times can be a good place for your money if you plan on using the money in the short-term. Over the long term,

however, cash has produced a return of around 5% per annum, which is not much more than inflation. As a growth investment the Smaller Companies Trust has returned 9.8% per annum over 16 years.

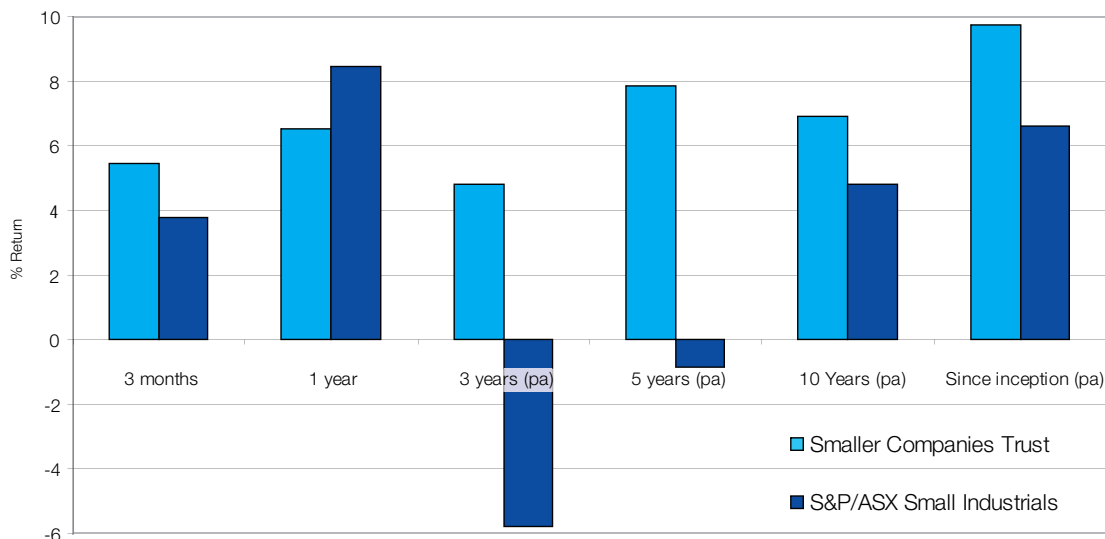
In terms of your tax, all interest earned on a cash account is taxable, whereas income earned from a share based investment fund can include franking credits. Franking credits arise when a company in which we invest has already paid tax and your share of that income tax is returned as a franking credit.

### What companies are you interested in at the moment?

I'm excited about an early stage biotech company called Circadian Technologies. They are developing antibody therapies which block cancer tumour growth. We also have investments in an Australian company called Tissue Therapies who are developing biomedical technology for wound healing and the treatment of burns. Their share price has increased significantly in the last 12 months.

We also have decent positions in Australian software companies which sell their applications into the growing wealth management space, promoting greater efficiency and transparency. These companies include Iress Technologies and GBST. The fund remains strongly positioned in the growing IT services space, with positions in ASG, Oakton and UXC.

## Smaller companies versus its benchmark



## Electric vehicles – coming to a road near you

The first electric cars were built in the United States way back in the 1890s. Despite the advantages of electric powered vehicles, petrol-powered cars have completely dominated our roads in the century since.

Now, with petrol no longer 'cheap' and an urgency to make less emission-intensive vehicles, production of electric vehicles is surging. Over 400,000 hybrid vehicles (combining electric and petrol power) have now been sold world-wide and more than 40 vehicle manufacturers plan on releasing fully electric vehicles by the end of 2012.

There are environmental benefits to using an electric vehicle over a petrol-powered one. It is estimated that 24% of current CO<sub>2</sub> emissions come from transport. An electric car leads to 35–60% less CO<sub>2</sub> emissions than from a conventional car with an internal combustion engine. Where renewable energy or green-power is used to charge the car, the emissions are significantly lower.

### Life in the electric lane

In July 2010, Haydn Lowe of Wollemi Systems became the owner of the first commercial production electric car registered in the ACT. The car is a Blade Electron manufactured by Blade Electric Vehicles in Castlemaine, Victoria.

Despite the environmental benefits and recent publicity surrounding the launch of electric vehicles in Australia, the process of actually financing, registering and insuring the vehicle wasn't straightforward. The key issue was that none of the relevant sectors had prior experience with production electric vehicles.

Encouraged by his positive experience of driving an electric vehicle on a daily basis, Haydn took up the challenge of making them more accessible to the general public. In September 2010 he launched the Clean Driving First50 campaign.

The First50 campaign aims to have 50 electric vehicles on Canberra roads by mid-2011. First50 offers attractive pricing combined with a streamlined process for ordering, financing, insuring and registering an electric vehicle.

After nine months of driving his Blade Electron, Haydn says it's a fun car to drive and he still has the 'EV grin'. 'It's still a novelty to have the car completely stopped at an intersection and not wasting any energy.'

Haydn says he's rarely at a petrol station these days. 'I have 90km in the "tank" every morning. If I need to go further I can plug in to a standard 10 amp power outlet at work or over lunch.'

The city run-about range has proved to be more than adequate. 'We're a two car family. The electric car works brilliantly around town and gets us out to my parents property just outside Canberra and back without any problems. For longer trips away we use our other car.'

Haydn notices the smell of petrol much more than he used to, but doesn't notice increases in petrol prices. 'It's a nice idea that the car is on our power bill, and costs just \$3 per 100km, including the cost of 100% green power.'

According to Haydn, refuelling the car is much like recharging any other household appliance. 'It's much more convenient than I expected. Plugging in at home is definitely easier than having to go to a petrol station. I've run out of charge on rare occasions, but no more often than I used to run out of petrol!'

Haydn wishes he could have bought his car through the First 50 Project. 'It would have saved us a lot of money and effort! On your own you don't have much clout.'

Information about the Clean Driving First50 Project is available at [www.cleandriving.com.au/first-50](http://www.cleandriving.com.au/first-50). Email enquiries can be sent to [first50@cleandriving.com.au](mailto:first50@cleandriving.com.au).



Haydn Lowe with his Blade Electron

## Transition to retirement – a powerful saving tool

There's no reason to stop working if you're not ready and you don't need to be fully retired to access your super.

Until recently, you could only access your super once you turned 65 or retired. This meant it was difficult to reduce your work hours and still maintain your standard of living.

Now, if you're over 55 and have some super, the transition to retirement rules could help you boost your super savings significantly without cutting back on your lifestyle. It could even allow you to reduce your hours at work and supplement your reduced salary with payments from your super.

Transition to retirement allows you to supplement your income by drawing a regular pension from your super fund. You can access a transition to retirement pension of between 2–10 per cent of your account balance if you've reached preservation age (currently 55) and you are still working.

There are a few ways you can benefit from transition to retirement:

- you can continue to work full-time but reduce your tax by taking a pension and salary sacrificing more of your income into super;
- you can move from full-time work to part-time work and replace your lost salary with a pre-retirement pension; and

- as a business owner/operator, you could use a pre-retirement pension to supplement your income needs in quiet times.

A pre-retirement pension may also help reduce your overall tax bill while boosting your total super balance before you retire.

### A transition to retirement strategy in practice

Nick, aged 57, has a salary of \$80,000 per annum (plus nine per cent super). He wishes to continue to receive his current net income but maximise the effectiveness of his super. He currently has \$400,000 in his super fund and decides to commence a transition to retirement to maintain disposable income and minimise tax.

The table below shows that by using a transition to retirement strategy Nick has not changed his cash income at all, but has saved \$3,363 in tax each year – money which stays in his super account.

If Nick continues to work after age 60 the amount withdrawn from his super is tax free. In the table this tax savings is realised in an increase of \$11,262 in net cash.

If you would like to learn more about transition to retirement please contact us on 1800 021 227.

	Without TTR		With TTR before age 60		With TTR after age 60	
	Disposable cash	Super balance	Disposable cash	Super balance	Disposable cash	Super balance
Opening super balance		\$400,000		\$400,000		\$400,000
Super earnings @ 7%		\$28,000		\$28,000		\$28,000
Tax on super earnings		-\$4,200		\$0		\$0
Salary	\$80,000		\$37,200		\$37,200	
Employer super (net of tax)		\$6,120		\$6,120		\$6,120
Salary sacrificed to super (net of tax)				\$36,380		\$36,380
Tax on salary	-\$18,750		-\$13,167		-\$5,268	
TTR pension			\$37,217	-\$37,217	\$29,318	-\$29,318
Total disposable income	\$61,250		\$61,250		\$61,250	
<b>Year end super balance</b>		<b>\$429,920</b>		<b>\$433,283</b>		<b>\$441,182</b>
<b>Net benefit of TTR per annum</b>		<b>\$0</b>		<b>\$3,363</b>		<b>\$11,262</b>

\* Earnings are 6% pa in a superannuation account (net of 15% tax) and 6.5% in a pension account (nil tax). Salary sacrifice and 9% SG contributions are taxed at 15% in super. Earnings and super contributions are credited monthly. This example has been calculated using the 2010–11 income tax rates.

## Winds of change

Australia's first community owned wind farm is up and running.

Two wind turbines with a combined capacity of 4.1 megawatts have sprung up at Leonards Hill, near Daylesford in Victoria's Central Highlands. The turbines are expected to generate more energy each year than is used by the 2000 homes of nearby Daylesford.

The Hepburn Community Wind Farm is Australia's first community wind farm and has been built by Hepburn Wind, a community co-operative. What began as an initiative of the Hepburn Renewable Energy Association back in 2005 became a reality with the erection of two turbines in mid-March this year.

Hepburn Wind formally launched its share offer in July 2008, with priority given to the local residents of the Hepburn Shire. The co-operative now has almost 1600 members who have together invested more than \$8.7 million.

The chairman of Hepburn Wind, Simon Holmes à Court said, 'While the concept of a co-operative wind farm is new and exciting for Australia, the model has a proven track record overseas. Community ownership plays a significant role in Denmark, Germany, Canada, the UK and the United States.'

In Denmark, the government supports families and communities generating their own electricity by offering tax exemptions. Denmark is a world leader in wind energy and over 86% of all the wind turbines there are owned by more than 2100 community co-operatives.

Unlike the developer driven model more familiar in Australia, community wind farms generally operate with democratic principles and are operated with the community's interests as a top priority.

Simon Holmes à Court said, 'The community ownership model is particularly relevant at a time when some regional communities in Australia are asking what they stand to gain from the 'wind rush' on their doorsteps.'

With a community based co-operative structure, the decision making and profits stay in the hands of the locally based investors, the community receives improved infrastructure, local jobs are created and local initiatives are supported. The more members the co-operative has, the more democratic the development is. For Hepburn Wind, there is one vote for each member rather than one vote per share.

The founders of Hepburn Wind were frustrated with the government's pace in responding to the challenge of climate change, and decided that the local community didn't have to wait. Together the community could achieve much more than individual action and set an example for other communities.

The turbines will prevent an average of 12,200 tons of carbon dioxide entering the atmosphere each year. 'Members of our co-operative are more than just investors. Together we're taking a constructive stance in the climate change challenge and proving that communities can benefit from the low carbon transition', said Simon Holmes à Court.

The wind farm will not only generate a return for investors, a portion of profits will also go toward supporting local projects. Hepburn Wind is creating the Community Sustainable Fund that will see more than \$1 million invested in local sustainability initiatives over the next 25 years.

Embark Australia has been set up as a non-profit body to extend the Hepburn Model to other communities that wish to benefit from the community ownership model. Already more than 40 communities are working with Embark to adapt and adopt the learnings from Leonards Hill to a range of technologies including wind, solar and mini-hydro around the country.

To find out more about Hepburn Wind visit [www.hepburnwind.com.au](http://www.hepburnwind.com.au). More information on Embark is available at [www.embark.com.au](http://www.embark.com.au)



One of the Hepburn Wind's community owned turbines

# Australia's first climate change shareholder resolution

Australian Ethical's Climate Advocacy Fund has achieved some significant milestones in its first year.

For 2010–11 the Climate Advocacy Fund proposed resolutions to four companies requesting disclosure of carbon emissions, strategies to reduce emissions, and capital investment assumptions around future carbon prices and their impact on long-term investment decisions.

The annual general meetings (AGM) of two of these companies, Aquila Resources and Paladin Energy, were held in November 2010. Both companies refused to put the resolutions to a vote at their AGMs. However, after the AGM both companies agreed to publish carbon emission reports.

The AGMs of the other two companies, Oil Search and Woodside Petroleum, were held in April 2011.

Oil Search responded positively to the Climate Advocacy Fund. The resolution was withdrawn before the AGM after Oil Search announced new plans to manage their carbon risk and to publish targets for reducing their greenhouse gas emissions. The positive engagement from Oil Search is a strong lead for other Australian companies to follow.

Woodside Petroleum declined to table the preferred shareholder resolution asking it to disclose its carbon price assumptions. Instead, Woodside obliged the Fund to opt for a second type of resolution that required a change to the company's constitution and needed 75 per cent of shareholders to support the resolution.

The resolution put to the Woodside AGM on 20 April 2011 was the first climate change shareholder resolution to be voted on at an Australian company AGM. Around 6 per cent of shareholders voted for the resolution.

The Woodside resolution was an opportunity for other super funds to show they walk the talk on climate change.

The Australian Council of Super Investors, recommended their members support the resolution, yet only a handful of super funds went on to vote for the resolution. Significantly, some super funds who are signatories to the Carbon Disclosure Project and the UN Principles for Responsible Investment failed to support the resolution.

## What can you do?

The Climate Advocacy Fund is always looking for new investors and super members. The more investors the fund has, the more clout it will have when engaging with companies and pursuing shareholder resolutions.

The Climate Advocacy Fund is a passively managed index fund suiting investors who seek a financial return in line with the S&P/ASX 200. It has produced a return of 8.25% since its inception in February 2010 until 31 March 2011.

You can invest in the Climate Advocacy Fund as a managed fund option, or through your super.

## Profile of an ethical investor – Elsa Evers

To be honest, I'm not the best with money. I like stories more than numbers, so I'm a dreadful failure when it comes to budgeting or anything that requires tracking numbers across spreadsheets. Luckily for me, there are people at Australian Ethical that do like numbers. Luckier still, they've worked out that our personal investments make a significant impact on the two things that are most important to me – people and the environment. Oh, and food.

I spend most of my day thinking about food. A good portion of that includes daydreaming about what I'm going to have for lunch – cheese toastie, risotto, pumpkin and beetroot salad – it must be about that time now. I spend the rest of the day working on the Greenpeace sustainable food and farming campaign.

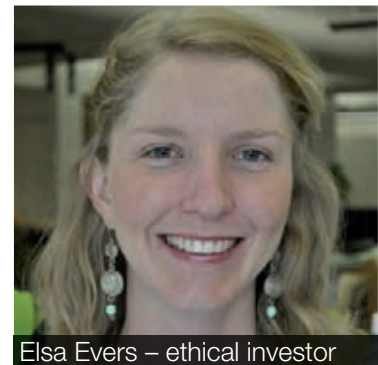
Right now, Australia is set to be the first nation in the world to grow chemical-intensive, and untested genetically modified (GM) wheat. Unless we tell Australian food companies and politicians that we'd rather not be

used as guinea pigs, we'll be the first people to test the long-term effects of eating GM and the impact of these synthesised plants on the Australian environment.

GM has not been proven safe to eat; yet labelling laws around GM are woefully inadequate. Last year Greenpeace tested S-26 baby formula and found it contained unlabelled GM soy and corn ingredients. In the absence of proper labelling laws, Greenpeace publishes a shopping guide to empower Australians to avoid GM and its associated health risks.

After work I like getting dirty in my kerbside garden. The little girl from next door comes to help do the watering most afternoons. The other day she ran up, so excited. 'My teacher asked if anyone knew what a turnip was,' she said. 'I was the only one!'

One day I hope there will be a place in central Sydney where people living in apartments like me can grow food, and kids can see where turnips come from.



Elsa Evers – ethical investor

City farms exist in Melbourne, London and New York, so I can't see why we don't have one here. Thankfully, the Sydney City Farm group is trying to do just that, and I help out where I can.

In amongst working, eating and digging, I don't have much time to be checking out the ASX and where my savings are being spent. I'd rather trust people like those at Australian Ethical to make sure my dollars aren't making the world worse off than it is. I'm not good with money, but as a storyteller, it makes good sense that if we want a happy ending, we need to be paying for the 'good' characters to play larger roles.

## Climate risks and opportunities

Climate change is one of the most significant challenges facing the global economy. The projected impacts on the environment and society are unprecedented.

Recent climate change has seen an increase in the average temperature of the earth's air and oceans. According to the Intergovernmental Panel on Climate Change (IPCC) there was an increase in average global surface temperature of 0.74 degrees last century. Most of this temperature increase was caused by increased greenhouse gas concentrations in the atmosphere.

There is clear consensus in the scientific community that human activity is the main driver of climate change. Humans contribute to climate change by emitting large amounts of greenhouse gases, such as carbon dioxide, through activities such as deforestation and burning fossil fuels.

The IPCC forecasts further rises in temperature of between 1.1 and 6.4 degrees. Increased temperatures will result in sea levels rising and more frequent extreme weather events.

It is apparent that cutting greenhouse gas emissions is the only way of slowing the impact of human induced climate change.

Placing a price on carbon dioxide emissions is one approach to reducing climate change, and one that Australian business and financial markets will soon have to accept. Climate change is therefore a crucial issue for asset owners, asset managers and investors.

## Risks and opportunities

Climate change mitigation gives rise to a number of investment risks and opportunities.

The greatest risks will be faced by companies whose activities emit large amounts of greenhouse gases, and those whose activities and infrastructure are affected by things such as rising sea levels or extreme weather events.

However, there are also plenty of opportunities in climate change mitigation. New opportunities exist in producing lower emission products and services, particularly in the energy and transport sectors, and taking advantage of consumer support for companies they view as being active in reducing their carbon emission footprint.

Specific risks and opportunities include:

**Regulatory challenges** – National and international policy frameworks for reducing greenhouse gas emissions will need to provide an imperative to reduce operational emissions. Environmental taxes and compliance need to be factored in to companies' operational costs. In Australia it is anticipated there will be a carbon tax introduced in July 2012.

**Market dynamics will change** – Higher energy costs will present a significant impact to business. For energy intensive industries this will impact profits. This change in consumer attitudes and demand patterns may also open up opportunities for new technology, products and markets that are less energy intensive and more sustainable in a carbon expensive environment.

**Changing weather patterns** – The physical risks of climate change include damage to assets as a result of flooding and extreme weather events that occur more often and with greater and increasing intensity. Insurance companies and companies with essential infrastructure, in particular, will need to meet these new challenges.

**Reputation** – Companies that choose to ignore, or are not willing to transit to a climate change conscious business operating environment will suffer reputationally and financially. Customer, employee, investor and societal perceptions will have an increasing impact on brand value. This should translate into investor confidence in those businesses that are prepared to cost the impact of climate change on the business environment and financial support of those businesses.

There are a number of indicators investors can look to in considering how prepared a company is to face climate change risks.

Does the company have a corporate wide climate change policy and does the company set targets in relation to reducing its greenhouse gas emissions? Has the company made steps to measure, monitor its carbon footprint? Does the company report quantitative data covering the quality of carbon data, quantify disclosure risks or opportunities for its business operations?

Australian Ethical takes into consideration all of the above issues when choosing our investments. Our Climate Advocacy Fund has been actively pursuing a number of these issues including trying to get companies to report on emissions and adopt emission reduction targets.

The Australian share market, and hence the portfolios of most super funds, are dominated by companies in the resource and mining industries. These companies face significant risks as they produce large amounts of greenhouse gas emissions.

Australian Ethical has always avoided investment in companies whose activities produce large amounts of pollution. Instead, Australian Ethical invests in companies whose activities reduce emissions in areas such as renewable energy, recycling, efficient transport and green property. These investments should benefit from a move to a low carbon economy.

## Returns to 30 April 2011

Managed funds	3 month return (%)	1 year return (%)	3 year return (% pa)	5 year return (% pa)	10 year return (% pa)	Since inception
Balanced	1.4	4.4	0.3	0.8	5.0	6.5
Smaller Companies	3.6	9.8	7.8	7.0	7.7	9.8
Larger Companies	0.8	-2.4	-2.3	-1.6	4.7	7.6
International Equities	-1.5	-2.3	-8.1	-	-	-9.1
Income	1.2	5.1	4.6	4.8	4.8	4.6
Property	2.1	13.9	-	-	-	3.6
Climate Advocacy	2.0	5.8	-	-	-	9.1
<b>Super</b>						
Balanced	0.8	3.4	0.2	0.8	4.8	5.8
Smaller Companies	2.3	8.5	6.6	6.3	7.3	9.6
Growth	0.0	-2.3	-2.2	-1.3	4.8	7.6
International Shares	-1.0	-1.7	-7.6	-	-	-8.7
Defensive	0.9	4.3	4.0	4.1	4.1	4.0
Conservative	1.4	-	-	-	-	5.7
Climate Advocacy	1.3	-	-	-	-	6.8

## Company profiles

### Capstone Turbine Corporation

Capstone produces microturbines, energy generation equipment that produces considerably less pollution than other fossil fuel based power technologies. When used as part of a combined heat and power plant, microturbines can achieve efficiencies approaching 90%.

### Aixtron

German company Aixtron is a provider of deposition equipment to the semiconductor industry. The company's products are used in the LED lighting and solar panel industry. LED lights are an extremely efficient form of lighting compared to traditional modes of lighting.

### SomnoMed

Sleep disordered breathing (SDB) is a condition affecting an estimated 4.2 million Australians. Characterised by headaches, fatigue and high blood pressure, SDB is associated with serious conditions such as hypertension and cardiovascular disease. SomnoMed is an Australian company whose products treat SDB conditions such as obstructive sleep apnea, snoring and teeth grinding.

Follow us on Twitter! [www.twitter.com/austethical](http://www.twitter.com/austethical)



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 relevant PDS should be read before making an investment decision.

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