



Trusts – the year in brief

year ended 30 June 2005

Your periodic statement consists of two parts: Part 1 – *Trusts – the year in brief* (this document); Part 2 – Statement of transactions.

Australian Ethical's trusts performed well over the 2004–05 financial year, building on the strength of the Australian share market. The Balanced Trust and the Large Companies Share Trust were at or near the top of their categories over periods ranging from one to five years.



David Ferris
Investment Manager

LARGE DISTRIBUTION TO INVESTORS

Distributions from Australian Ethical Investment trusts at the end of the 2004–05 financial year were large compared with previous years. This swing was due to realised capital gains. In a strongly rising market, the majority of share sales are at prices higher than the purchase price. Many other funds have also paid large distributions as a result of the market rise.

When the amount to be distributed is paid to unitholders, the unit price falls by that amount. The unitholder does not lose any of the value. Those who reinvest their distribution are credited with new units to the value of the distribution. The distribution statement mailed in July set out the information needed for tax returns.

Please ring Funds Administration on 1300 139 447 or email trustadmin@austethical.com.au if you would like to know more.

Australian Ethical Large Companies Share Trust

During the year the strongest-performing stocks on the Australian Stock Exchange were resources stocks. The Large Companies Share Trust holds no mining stocks and therefore did not get the benefit that other funds did from this resources sector boom. Despite this, the trust has delivered returns better than much of its peer group.

Interestingly, these returns have been delivered with a decreasing month-to-month variability of returns over the last few years (driven by improved diversification). This suggests that the return performance has not been at the expense of increased risk-taking.

Some of the better performing stocks over the 2004–05 financial year included:

- renewable energy company, Pacific Hydro (+84.2%) – taken over during the year and so sadly no longer available as an investment
- hearing technology company, Cochlear (+72.5%)
- Macquarie Communications Infrastructure Group, which owns the broadcasting towers used by the ABC and SBS (+71.2%)
- blood products company, CSL (+51.2%)
- renewable energy company, Energy Developments (+48.4%)
- Waste Management New Zealand (+41.7%)
- Sonic Healthcare (+37.8%)
- condom and surgical glove manufacturer, Ansell (+29.6%)

continued overleaf

Discount on contribution fees for investments in trusts

see leaflet or visit www.austethical.com.au

Large Companies Share Trust

continued from previous page

- metals recycler, Sims Group (+29.5%)
- manufacturer of sleep apnoea products and humidification equipment for infants, Fisher and Paykel Healthcare (+24.2%)
- US organic and natural foods retailer, Whole Foods (+24.1%) and
- Japanese bicycle component manufacturer, Shimano (+21.2%).

Over the five months from 31 March to 31 August 2005, the value of investments in the Large Companies Share Trust increased by 8.4 per cent or 15.37 cents per unit.[†]

PERFORMANCE[†]

	Trust return (%)	ASX 200 index (%)	Rank in category*
1 year	23.6	26.4	1st of 19 funds
3 years	15.6	14.7	1st of 17 funds
5 years	8.1	9.4	2nd of 8 funds

*ASSIRT Multisector Equity

[†]For details on past performance calculations see back page.

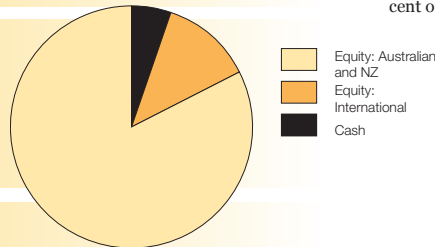
EARNINGS

Full year	cents per unit	Return* (%)
Distributions	29.86	17.8
Unit value change	9.60	5.8
Net earnings result	39.46	23.6

*assumes reinvestment of half-yearly distribution

ASSET ALLOCATION

Funds at year end: \$72 million.



Australian Ethical Equities Trust

The Equities Trust has probably the strongest ethical profile of the Australian Ethical trusts, with the flexibility to support some of the smaller, more cutting-edge ethical stocks such as CDS Technologies (waste water technology), Quantum Technology (a range of computer and other products for the sight-impaired), CVC Renewable Energy Equities Funds and CVC Sustainable Investments (private equity ethical portfolios), and Mornington Park Development (a world class waste transfer station in Hobart). The trust has also added some strongly ethical stocks to the portfolio this year:

- hot rocks company, Geodynamics. This company is aiming to generate significant amounts of clean electricity by running water under pressure through high temperature subterranean rocks in the Cooper Basin to generate steam to drive turbines.
- renewable energy company, Novera. This company owns (through a joint venture) a number of waste to energy and wind power assets in the United Kingdom.
- Pro-Pac Packaging – a leader in the production of biodegradable packaging.
- Codan. This company makes high quality communications equipment for use in remote or emergency-stricken areas.
- Ceramic Fuels Cells.

It remains the belief at Australian Ethical, and among ethical investors generally, that there is a long-run financial pay-off to supporting such companies, in addition to the intrinsic social and environmental benefits.

Over the five months from 31 March to 31 August 2005, the value of investments in the Equities Trust increased by 7.2 per cent or 11.32 cents per unit.[†]

PERFORMANCE[†]

	Trust return (%)	ASX 300 index (%)	Rank in category*
1 year	19.3	26.0	equal 154th of 170 funds
3 years	12.6	14.7	equal 68th of 119 funds
5 years	6.4	9.5	equal 66th of 73 funds

*ASSIRT Australian Equity General

[†]For details on past performance calculations see back page.

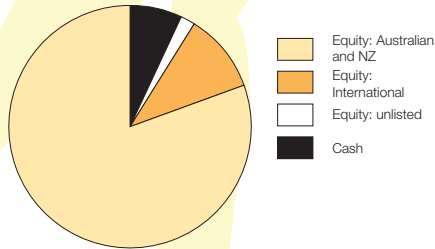
EARNINGS

Full year	cents per unit	Return* (%)
Distributions	33.32	21.7
Unit value change	-3.60	-2.4
Net earnings result	29.72	19.3

*assumes reinvestment of half-yearly distribution.

ASSET ALLOCATION

Funds at year end: \$119 million.



Australian Ethical Balanced Trust

The fund won the Standard and Poor's Australian Fund Award 2005 in the category, Balanced Funds – Neutral.

The Balanced Trust holds a mix of growth assets (shares and property) – which capture the benefit of rising markets – and yield assets (loans and interest-bearing investments) – which underpin trust returns and provide some protection during periods when the share market falls. Through most of the last two financial years, the Balanced Trust has operated close to its prescribed maximum level (60%) in growth assets in order to position it to benefit from the strong share market. Late in the 2004–05 financial year, the trust was moved to a more cautious position, with growth assets reduced to closer to 50% of the portfolio.

Generally, the Balanced Trust's equities portfolio was subject to the same influences as the Equities Trust and the Large Companies Share Trust.

Property investment rose as a percentage of trust to 6.6% and has risen further in July 2005 with a major direct property acquisition. The latest investment is an energy-efficient building with a government tenant in Canberra. The trust also holds investments in low-income units and in eco-village developments.

The majority of the fixed interest portfolio is held in AAA mortgage-backed securities and in the debt of the regional banks (St George, Suncorp, Bendigo Bank, Bank of Queensland, Bank of Western Australia, and Adelaide Bank). The trust also holds investments with the Australian Central Credit Union, the Maleny Credit Union and Members Equity Credit Union. Other debt securities include Medfin Trust securities (securitized loans to medical practices), securities of the US student loan organisation, Sallie Mae, and of natural gas distributor, Envestra.

Over the five months from 31 March to 31 August 2005, the value of investments in the Balanced Trust increased by 4.5 per cent or 5.89 cents per unit.[†]

PERFORMANCE[†]

	Trust return (%)	Category index* (%)	Rank in category*
1 year	14.9	12.4	5th of 42 funds
3 years	11.6	8.0	1st of 30 funds
5 years	9.7	4.9	equal 2nd of 19 funds
10 years	9.5	7.9	not applicable

*ASSIRT Multisector 60

[†]For details on past performance calculations see back page.

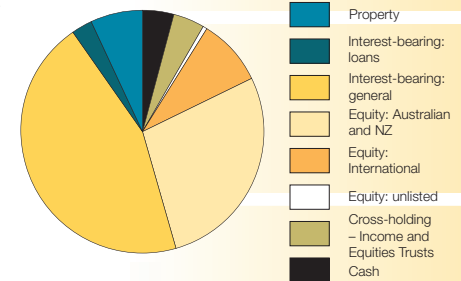
EARNINGS

Full year	cents per unit	Return* (%)
Distributions	16.11	13.0
Unit value change	2.46	2.0
Net earnings result	18.57	14.9

*assumes reinvestment of half-yearly distribution.

ASSET ALLOCATION

Funds at year end: \$153 million.



Australian Ethical Income Trust

The private loan portfolio is an important feature of the Income Trust. As well as offering the highest yields of the portfolio's assets, it also provides the most direct support for activities viewed as positive under the Australian Ethical Charter, for example, schools offering holistic and non-competitive education or farms engaged in sustainable agriculture.

Apart from private loans, at 30 June 2005 the trust held a further 78.65% of its portfolio in interest-bearing securities in the following credit risk categories:

- senior debt of credit unions
- subordinated debt of credit unions
- senior debt of the regional banks
- subordinated debt of the regional banks
- regional bank perpetual subordinated debt
- residential mortgage-backed securities – all AAA-rated
- Medfin Trust securities
- rated investment-grade debt (Sallie Mae).

Generally, the AAA-rated mortgage-backed securities and the senior bank debt would be regarded as the most creditworthy of these securities, although the responsible entity monitors the creditworthiness of all its investments. Senior debt means that the debt ranks first in obligations to be met, ahead of subordinated debt. Perpetual debt is higher risk than fixed-term debt. After the regional banks, the debt of the credit unions would be on a lower tier.

This document forms part of a unitholder's periodic statement and is a summary of the annual report of Australian Ethical Investment's trusts. If you would like a copy of the full annual report:

Over the five months from 31 March to 31 August 2005, the value of investments in the Income Trust increased by 2.1 per cent or 2.03 cents per unit.[†]

PERFORMANCE[†]

	Trust return (%)	Rank in category*
1 year	4.9	35th of 43 funds
3 years	5.0	equal 23rd of 37 funds
5 years	4.9	equal 22nd of 27 funds

*ASSIRT Australian Fixed Interest General

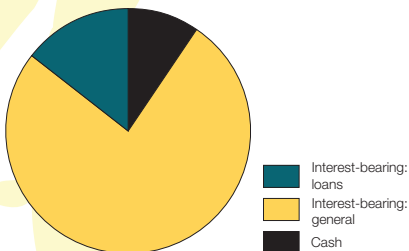
EARNINGS

Full year	cents per unit	Return* (%)
Distributions	4.57	4.8
Unit value change	0.08	0.1
Net earnings result	4.65	4.9

*assumes reinvestment of half-yearly distribution.

ASSET ALLOCATION

Funds at year end: \$17.6 million.



download from www.austethical.com.au
phone **1300 139 447**
email trustadmin@austethical.com.au.

[†]Past performance is not a reliable indicator of future performance.

Performance figures are calculated using exit prices. Performance figures take into account ongoing management fees and trust expenses. Performance figures 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. Neither the return of capital nor the performance of a trust is guaranteed. Figures showing a period of less than one year have not been adjusted to show an annual return. Figures for periods of greater than one year are on a per annum compound basis. The latest available performance figures can be obtained from our website www.austethical.com.au or by calling **1300 139 447**. Rankings have been calculated by Australian Ethical Investment Limited using data supplied by ASSIRT Pty Ltd current as at 30 June 2005.

Units in the trusts are offered and issued by Australian Ethical Investment Ltd ABN 47 003 188 930, AFSL 229949. A product disclosure statement is available from our website or by phone and should be considered before deciding whether to acquire, or continue to hold, units in the trusts.