

Australian Ethical Income Trust

The Income Trust has recorded seven consecutive years of stable performance; this performance taking place during a period of generally low (historically) interest rates.

Stable returns is another way of saying low volatility of returns. *Volatility of returns* is how investment analysts generally measure risk. The responsible entity continues to manage the trust so as to achieve returns reflecting current interest rates with very low volatility.

The AAA-rated mortgage-backed securities in the trust formally have long-dated maturities, but the responsible entity selects lines of these securities which in practice have a very short weighted average life and the portfolio as a whole has a very short duration. Consequently there is very little interest rate risk in the portfolio and it would be expected that the yield on this asset class will move broadly in line with the level of interest rates.

New investments

- newspaper and magazine publisher, Fairfax (John) preference shares
- Vero Insurance Ltd (part of Promina)
- gas and green electricity supplier, Origin Energy Ltd corporate bonds

Trusts – the year in brief is a summary of the annual report of the Australian Ethical Investment trusts. If you would like a copy of the full annual report:

download it from austethical.com.au

phone **1300 139 447**

email trustadmin@austethical.com.au

Performance*

	Trust returns %
1 year	5.0
3 years	4.9
5 years	4.9

All figures expressed as compound annual returns.

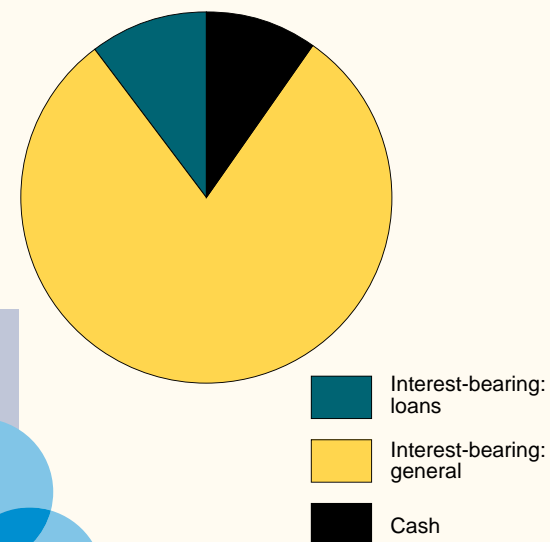
Earnings

Full year	cents per unit	return* %
Distributions	4.51	4.7
Unit value change	0.23	0.2
Net earnings result	4.74	5.0

* assumes reinvestment of half-yearly distribution.

Asset allocation

Fund size: \$20.6 million



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**.

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.

This information has been prepared without taking account of your individual investment objectives, financial situation or needs. Before acting on it, you should consider its appropriateness to your circumstances.

Australian Ethical® is a registered trademark of Australian Ethical Investment Ltd.

Printed on 100% recycled paper.

Trusts – the year in brief

year ended 30 June 2006

While the 2005–06 returns of the Australian Ethical trusts were high both in absolute and relative historical terms, they were bettered by other managed funds which were able to ride the boom in oil, coal and uranium stocks without any particular regard to social and environmental concerns. The Australian Ethical Charter requires the trusts to avoid investments in industries which involve pollution, harmful effects on humans and the environment, or which destroy or waste non-renewable resources.

The trusts do not invest in the two major mining companies (BHP Billiton and Rio Tinto) or the four major banks (Commonwealth, Westpac,

National Australia and ANZ) which make up one-third of the index representing the 300 largest companies on the Australian Stock Exchange. These six companies contributed a large part of the index's returns. The trusts' performance is comparable with that of the remainder of the 300 companies (16.3 per cent for the year).

David Ferris

David Ferris
Investment Manager

Australian Ethical Large Companies Share Trust

2005–06 represents the third consecutive year of double-digit returns (returns over the last three years have been 20.6%, 23.8% and 16%) and the trust's long-term returns remain competitive with other funds and with the market as a whole.

Recently, the responsible entity for the trust decided to change the benchmark to the S&P/ASX 200 *Industrials* index – an index of 200 of the largest companies on the Australian Stock exchange **excluding mining sector stocks**.

Top performers

Domestic (Australian and New Zealand):

- blood products company, CSL Ltd (+59.4%)
- CHEP pallet manufacturer and recycler, Brambles Industries (+40.5%)
- hearing technology company, Cochlear (+39.4%)
- metals recycler, Sims Group (+34.8%)
- electronic share registry provider, Computershare Ltd (+34%)
- manufacturer of sleep apnoea products and humidification equipment for infants, Fisher and Paykel Healthcare (+19.1%)
- Sonic Healthcare Ltd (+13%).

International:

- Norwegian manufacturer of container recycling machines, TOMRA Systems ASA (+87%), and
- Danish wind turbine manufacturer, Vestas Wind Systems (+56%).

New investments

Domestic:

- wind farm player, Babcock and Brown Wind Partners
- aged care services provider, DCA Group Ltd

International:

- software developer and distributor, Adobe Systems Inc, from the USA
- hearing aid manufacturers, GN Store Nord from Denmark and Phonak Holding AG from Switzerland
- wind turbine manufacturer, Gamesa Corp Tecnologica SA, from Spain



australianethical
investment

Australian Ethical Large Companies Share Trust
continued

- school and Greyhound bus operator, Laidlaw International, from the USA, and
- geothermal energy company, Ormat Technologies, from the USA.

Performance#

	Trust returns %	S&P/ASX 200 Industrials index %
1 year	16.0	17.2
3 years	20.0	19.3
5 years	10.0	9.6

All figures expressed as compound annual returns.

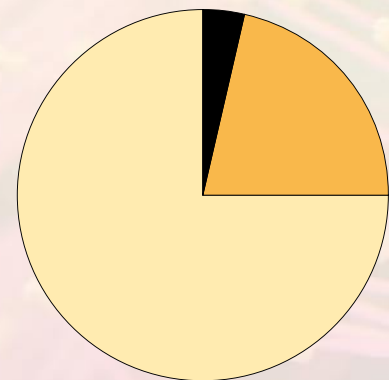
Earnings

Full year	cents per unit	return* %
Distributions	25.47	15.0
Unit value change	1.72	1.0
Net earnings result	27.19	16.0

* assumes reinvestment of half-yearly distribution.

Asset allocation

Fund size: \$104.5 million.



- Equity: Australian and NZ
- Equity: International
- Cash

Australian Ethical Equities Trust

Portfolio diversification continued to improve over the year with the addition of several new companies, especially internationally listed companies in sectors such as organic foods and solar energy where it is not possible to obtain listed investments in Australia. The trust held investments in 61 companies at the end of June 2006 – compared with 35 in June 2000.

New investments

Domestic:

- brain function monitoring device maker, BrainZ Instruments
- hydrogen fuel cells maker, Ceramic Fuel Cells Ltd
- aged care service provider, DCA Group Ltd

International:

- bicycle maker, Accell, from Holland
- solar energy companies, Conergy and Solarworld, from Germany
- hearing aid companies, William Demant and GN Store Nord from Denmark and Phonak from Switzerland
- wind turbine manufacturer, Gamesa, from Spain
- wind farm player, Babcock and Brown Wind Partners
- water treatment services company, Hyflux, from Singapore
- school and Greyhound bus operator, Laidlaw International, from the USA
- geothermal energy company, Ormat Technologies, from the USA
- coal seam gas companies, Arrow Energy, CH4 Gas Ltd, Eastern Star Gas and Queensland Gas company Ltd.

Top performers

Domestic:

- drainage system provider, Environzel (+222%)
- provider of scanners to improve coal burning efficiency, Scantech (+100%)
- medical and security instrument maker, Vision Systems Ltd (+66.1%)
- Brambles Industries (+40.5%)
- hearing technology company, Cochlear (+39.4%)
- metals recycler, Sims Group (+34.8%), and
- software provider, Technology One Ltd (+30.8%).

International:

- Norwegian manufacturer of container recycling machines, TOMRA Systems ASA (+87%) and
- Danish wind turbine manufacturer, Vestas Wind Systems (+56%).

Recently, the responsible entity for the trust decided to change the benchmark to the S&P/ASX *Small Industrials* index – an index of smaller companies listed on the Australian Stock exchange **excluding mining sector stocks**.

Performance#

	Trust returns %	S&P/ASX Small Industrials index %
1 year	14.2	20.0
3 years	15.9	22.8
5 years	7.3	13.3

All figures expressed as compound annual returns.

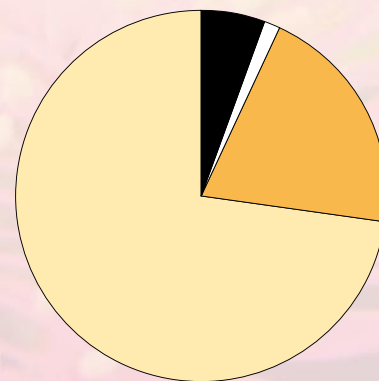
Earnings

Full year	cents per unit	return* %
Distributions	16.53	11.6
Unit value change	3.85	2.6
Net earnings result	20.38	14.2

* assumes reinvestment of half-yearly distribution.

Asset allocation

Fund size: \$138.2 million



- Equity: Australian and NZ
- Equity: International
- Equity: unlisted
- Cash

Australian Ethical Balanced Trust

Longer term returns for this trust – from five years dating back to inception – are among the best in the balanced fund category. Further, the standard deviation of returns of the trust is well below the median for its category, which means that the superior long-run returns have been achieved with a relatively low risk profile.

The trust retains a balance between quality domestic and international stocks, property, and debt securities (including a small proportion of private loans), with a move towards a slight increase in property investment over the last year. All investments in the portfolio are screened against the Australian Ethical Charter.

Property

From an ethical perspective, the responsible entity considers both the tenancy/use of the property and the building itself (energy efficiency and heritage characteristics). Our screening standards have been such that it has been difficult to identify sufficient indirect property investments (that is, property trusts) to build a major portfolio although this is changing with a number of new funds coming onto the market including some syndicated funds operated by major property companies.

New investments

Domestic:

- Babcock and Brown Wind Partners
- DCA Group Ltd

International:

- William Demant Holdings
- GN Store Nord
- Phonak
- Gamesa Corp Tecnologica
- Laidlaw International

Property:

- Investa Diversified Office Fund
- ING Community Living Fund
- ING Healthcare Fund

Top performers

Domestic:

- Brambles Industries (+40.5%)
- Cochlear Ltd (+39.4%)
- Sims Group Ltd (+34.8%)

- Technology One Ltd (+30.8%)
- standards and assurance services provider, SAI Global Ltd (+23.7%) and
- Fisher and Paykel Healthcare Ltd (+19.1%).

International:

- Tomra Systems ASA (+87%)
- Vestas Wind Systems (+56%)
- US rail freight operator, Genesee and Wyoming Inc (+30.4%) and
- US electric motor manufacturer, Baldor Electric Company (+28.2%).

Performance#

	Trust returns %	Benchmark index %
1 year	9.5	13.5
3 years	12.5	12.7
5 years	8.9	6.8
10 years	9.3	8.2

All figures expressed as compound annual returns.

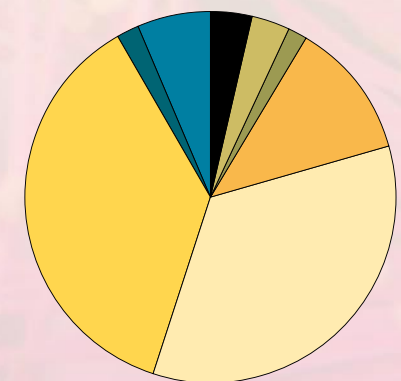
Earnings

Full year	cents per unit	return* %
Distributions	12.57	10.1
Unit value change	-0.77	-0.6
Net earnings result	11.80	9.5

* assumes reinvestment of half-yearly distribution.

Asset allocation

Fund size: \$195.5 million.



- Property
- Interest-bearing: loans
- Interest-bearing: general
- Equity: Australian and NZ
- Equity: International
- Debt equity instruments
- Cross-holding – Income Trust
- Cash