

# Trusts – the year in brief

## year ended 30 June 2007

2006–07 saw solid returns across all of the Australian Ethical trusts. In this period the Australian Ethical Equities Trust was the star performer with a return of 36.9%, buoyed by a strong performance from its small company investments. This was the highest return of any fund – mainstream or ethical – in its Morningstar Research category for the year (Morningstar Research Pty Ltd\*).

The other three Australian Ethical trusts also performed strongly against their peer groups, with the Australian Ethical Income Trust ranked third out of 54 funds in its category; the Australian Ethical Large Companies Share Trust ranked eighth out of 31 funds in its category and the Australian Ethical Balanced Trust ranked seventeenth out of 50 funds in its category (all based on data from Morningstar Research Pty Ltd).

All four funds are also in the top (Balanced Trust and Large Companies Share Trust) or second (Income Trust and Equities Trust) performance quartiles for their categories over five years.

Late in 2006–07, an exciting new product, the Australian Ethical World Trust, was launched.

### Australian Ethical Balanced Trust

Longer-term returns for this trust – from five years dating back to inception – remain among the best in the balanced fund category. Further, the standard deviation of returns has generally been 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). All investments in the portfolio are screened against the Australian Ethical Charter.

Over the year, at the asset-class level, the trust shifted slightly towards debt securities at the expense of growth assets in anticipation of a market slowdown (which seems to have eventuated in part in early 2007–08). Within the growth asset portfolio, there was a shift at the margin from domestic equities to international and into property. Within the debt security portfolio, preference was given to higher credit quality yield investments to minimise direct exposure to sub-prime mortgage exposure.

### New investments

#### Property

- The trust purchased a new state-of-the-art warehouse with green attributes and a long-term government tenant on a good yield.

#### Domestic

There were no new domestic equity investments nor debt issuers added to the portfolio over 2006–07. With the reduction in the exposure to domestic equities, the trust has focused on maintaining its core holdings. The emphasis on quality debt securities has meant no expansion from the previous base of issuers.

#### International

- The trust established a crossholding in the new Australian Ethical International Equities Trust (wholesale) in June 2007 as the most efficient mechanism for it to access a well-diversified international equities exposure
- Earlier in the financial year, the trust bought into UK public transport companies Arriva, Stagecoach, and National Express. As well it bought into US metering company Itron and New Zealand 100% renewable energy provider Trustpower.

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

download it from [www.austethical.com.au/company\\_information/company\\_reports](http://www.austethical.com.au/company_information/company_reports)  
phone **1800 021 227**  
email [trustadmin@austethical.com.au](mailto:trustadmin@austethical.com.au)



## Australian Ethical Equities Trust

To achieve improved returns, specialist analysts were dedicated to the small company sector over the year. The trust has also become more concentrated, with the decision taken to more aggressively cull non-performing investments and to take more aggressive positions in stocks identified as best value. The strategy has proved successful, with the good absolute and relative-to-peer performance over the year.

The trust was slightly behind its ASX Small Industrials Index benchmark for the year. This is largely because the trust is a mixed fund holding both Australian and international equities. The international equities give the portfolio sector balance and diversification, as well as allowing investment in a range of highly ethical areas (public transport, wind power, solar power, recycling) which are scarce on the Australian Securities Exchange (ASX). However, since the Australian market greatly outperformed world markets in 2006–07, Australian indices rose more than most mixed funds.

### New investments

#### Domestic

- Geothermal (hot fractured rock) clean energy companies Green Rock Energy and Petrathem
- Legal firm Slater and Gordon, has been active in fighting for compensation for victims of asbestos, damaging medication, failed breast implants and smoking related illness

- Clean energy infrastructure fund Viridis Clean Energy Group which invests in a global portfolio of renewable energy assets
- Smart and energy efficient (LED) traffic light manufacturer Traffic Technologies
- GreenCap, which provides consulting services across the areas of environmental services, occupational health and safety, emergency management, fire safety and engineering, and asbestos risk management
- Engineering services AJ Lucas, which provides services particularly for utilities. The company is a specialist in helping pipeline infrastructure to be laid in an environmentally sensitive way
- Natural gas company, Pure Energy Resources.

And a range of small IT, telecommunications and financial services companies.

#### International

- Carpet manufacturer Interface (US) – one of the world's leading exponents of sustainable business practice. The company has revolutionised its manufacturing processes generating a range of positive environmental outcomes including reductions in waste and energy use, increased use of renewable energy and recycled content, and reduced overall greenhouse gas emissions
- UK socially responsible investment fund manager Impax Group

- Italian utility Hera, which provides natural gas, water and electricity services (including an expanding landfill to energy operation) as well as a range of environmental services
- US information technology company Adobe Systems, which aids worldwide efficiency in document management and production.

### Top performers

- Natural gas company Arrow Energy (+351.6%)
- Geothermal (hot fractured rocks) company Geodynamics (+161%)
- Danish wind turbine manufacturer Vestas Wind Systems (+128.2%)
- Enterprise software solution provider Technology One (+79.4%)
- Vitamin and mineral supplement manufacturer Blackmores Ltd (+47.9%)
- Spanish windpower company Gamesa (+61.1%)
- US manufacturer of energy efficient motors, Baldor Electric (+58.1%).

## Australian Ethical Large Companies Share Trust

2006–07 represents the fourth consecutive year of double-digit returns (returns over the last four years have been 16%, 16%,

23.8% and 20.6%) and the trust's long-term returns remain competitive with other funds and with the market as a whole.

This trust focuses on companies on the Australian Securities Exchange (ASX) and overseas with a market capitalisation of over \$1 billion. Combined with a more conservative management style, this exclusion of smaller companies makes this trust less volatile than the Australian Ethical Equities Trust.

While performing well against its peer group, the trust lagged its performance benchmark, the S&P/ASX All Industrials Index. Most of the shortfall is explained by the trust being a mixed fund, incorporating both domestic and international equities – the latter to obtain access to some key ethical sectors (public transport, bicycles, wind power, solar power, recycling) which are in short supply on the ASX. As the Australian market outperformed world markets over 2006–07, the returns on mixed funds tended to lag domestic indices.

### New investments

#### Domestic

No new investments – as Australian Ethical has, in the past, thoroughly screened most of the companies on the ASX with a market capitalisation above \$1 billion, additions to the domestic part of this trust are becoming rarer.

#### International

- UK public transport companies Arriva, Stagecoach and National Express

30 June 2007

## Australian Ethical Balanced Trust

## Australian Ethical Equities Trust

## Australian Ethical Large Companies Share Trust

## Australian Ethical World Trust

## Australian Ethical Income Trust

### Performance

	Australian Ethical Balanced Trust		Australian Ethical Equities Trust		Australian Ethical Large Companies Share Trust		Australian Ethical World Trust (together with the Australian Ethical International Equities Trust)		Australian Ethical Income Trust	
Total return	Trust returns	Morningstar Multisector Balanced Market Index	Trust returns	ASX Small Industrials Index	Trust returns	S&P/ ASX All Industrials Index			Trust returns	CPI + 2%
1 year (%)	10.6	12.5	36.9	38.2	16.0	28.7	The World Trust became available to investors in July 2007.		5.3	4.7
3 years (% pa)	11.7	12.3	23.1	27.9	18.5	26.3			5.0	4.4
5 years (% pa)	11.0	9.7	17.4	21.6	15.8	19.2			5.0	4.5

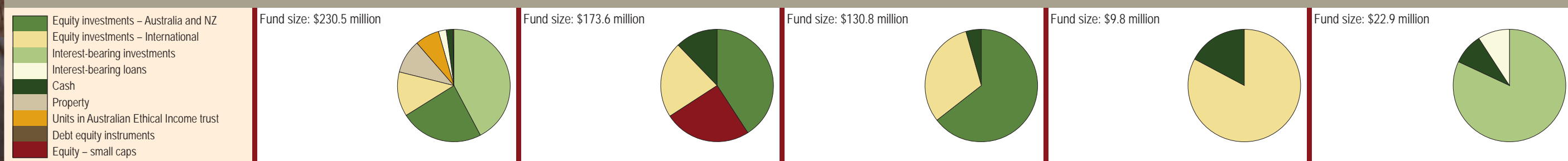
All figures expressed as compound annual returns

### Earnings

Full year	Australian Ethical Balanced Trust		Australian Ethical Equities Trust		Australian Ethical Large Companies Share Trust		Australian Ethical World Trust		Australian Ethical Income Trust	
	cents per unit	return* (%)	cents per unit	return* (%)	cents per unit	return* (%)			cents per unit	return* (%)
Distributions	10.45	8.4	29.13	19.4	22.8	12.9			4.88	5.1
Unit value change	2.88	2.3	26.43	17.5	5.56	3.1			0.14	0.1
Net earnings result (total return)	13.34	10.6	55.56	36.9	28.36	16.0			5.02	5.3

\*assumes reinvestment of distribution

### Asset allocation



- Major international retail banks Deutsche Postbank, Swedbank and Banco Santander
- Japanese education company Benesse Corporation
- German solar power companies Solarworld and Conergy
- Swedish hospital equipment manufacturer Getinge
- US metering company Itron
- US carpet-maker Interface – renowned for its sustainable business practices
- Italian utility Hera – provides natural gas, water and electricity services (including an expanding landfill to energy operation) as well as a range of environmental services
- New Zealand 100% renewable energy utility Trustpower.

### Top performers

- Danish wind turbine manufacturer Vestas Wind Systems (+128.2%)
- Australian blood and vaccine product manufacturer CSL Ltd (+63.7%)
- Spanish windpower company Gamesa Ltd (+61.1%)
- Swiss hearing aid manufacturer Sonova Holding (+43.9%)
- Australian financial services providers Computershare (+43.8%) and ASX Ltd (+49.5%)
- Australian energy providers Babcock and Brown Wind Partners (+29.1%) and Origin Energy (+35.1%).

## Australian Ethical Income Trust

The Income Trust has now recorded eight consecutive years of stable performance, this year recording its highest ever return of 5.3%.

Stable performance, is another way of saying low volatility of returns. Volatility of returns is how investment analysts generally measure risk. Australian Ethical continues to manage the trust so as to achieve returns reflecting current interest rate levels with very low volatility.

The AAA-rated mortgage-backed securities in the trust formally have long-dated maturities, but we select lines of these securities which in practice have 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.

The trust is also well protected from the perspective of credit risk. Of the 82% of the portfolio invested in interest-bearing securities, the vast majority are AAA-rated securities or in the senior debt of Australia's regional banks, with only about 5% of the trust held in lower-grade investments (generally credit union debt).

The 9% of the trust held in direct private loans is all invested in long-standing loans with a record of being trouble free. All loans are well secured, with loan to valuation ratios well within the trust's 67% maximum guideline.

As at time of writing, the trust has no obvious direct exposure to sub-prime mortgages of the type that have caused the recent trouble in the United States debt market.

There were no loans or new debt issuers added to this very stable portfolio over the course of 2006–07.

### 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](http://www.austethical.com.au) or by calling **1800 021 227**.

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.

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