

# australian**ethical** MANAGED FUNDS – annual report

year ended 30 June 2010

Australian Ethical Balanced Trust  
Australian Ethical Property Trust  
Australian Ethical Smaller Companies Trust  
Australian Ethical Income Trust  
Australian Ethical Larger Companies Trust  
Australian Ethical World Trust  
Australian Ethical International Equities Trust  
Climate Advocacy Fund

*The year in brief* is a summary of information contained in the annual report of the **australianethical** managed funds.

If you would like a copy of the full annual report:

download it from [www.australianethical.com.au/annual-reports-managed-funds](http://www.australianethical.com.au/annual-reports-managed-funds)

phone **1800 021 227**

email [trustadmin@australianethical.com.au](mailto:trustadmin@australianethical.com.au)

**australian**ethical****  
investment + superannuation

# 2009–10 a year of recovery and uncertainty

The first quarter of 2009–10 saw investment markets across the world continue to rebound from their lows in early March 2009. Following that recovery phase, market conditions reflected high uncertainty about the economic future. The uncertainty remains, with investors and market commentators concerned about the ability of developed economies to grow while carrying large debts.

## Long-term robust returns

The **ethical** funds have all delivered positive returns during 2009–10, although our funds that have high exposure to share markets did not perform as strongly as the main share market benchmarks. This is the flip-side of the comparatively smaller losses experienced by our funds during the global financial crisis. Our long-term returns remain highly competitive with their benchmarks. The Smaller Companies Trust especially has an outstanding record of outperformance, looked at over three, five and ten years or since its inception in September 1994.

## A smart energy future

On climate policy, a lot was promised last year but little delivered. The issue will not go away and our funds remain well positioned for the introduction of carbon pricing or a cap and trade scheme. In January our International Equities Trust was refocused and themed to specialise in **smart**energy. The theme focuses on investments that either contribute to a sustainable energy supply or to reducing energy demand. In late September this year, the Climate Advocacy Fund plans to lodge climate focussed resolutions, a first in Australia, to be considered at the annual general meetings of four companies.

Looking forward, the outlook for the global economy is widely perceived to be more uncertain than it was before the global financial crisis. We continue to manage your investment using the ethical approach that has served our investors well for the past 24 years.

James Jordan  
Chief investment officer



**SMA Solar**  
Founded in Germany in 1981, the company develops and produces intelligent computer-based control systems for decentralised energy supply. This technology is considered a key component for sustainable energy supply.

Photo courtesy: SMA Solar Technology AG

# Smaller Companies Trust

The Smaller Companies Trust returned 4.9% over the year compared to 10.3% for its benchmark.

The fund gave back a portion of its remarkable 2008–09 outperformance of its benchmark. The 12 month under-performance in 2009–10 was caused by holding relatively defensive shares, especially in healthcare and utilities. The market rewarded cyclical companies that offered better earnings growth.

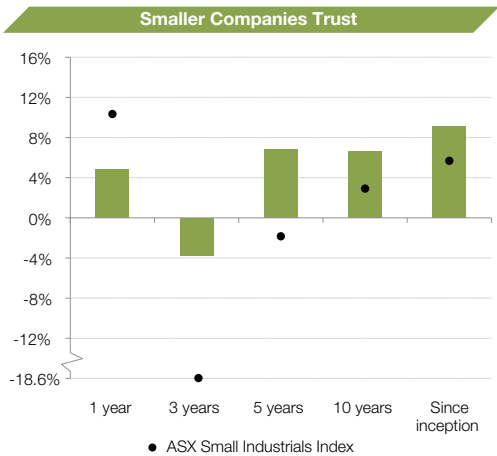
The 2009–10 year can be broken into two contrasting periods. In the September quarter of 2009 investor confidence quickly returned and the benchmark rose 25.9%. The following nine months to 30 June 2010 were less rewarding for all investors; the benchmark fell 12.4% with our fund out-performing the benchmark in this second period.

Shelving and storage company Dexion was the fund's strongest performing share, climbing over 150%, a result of a friendly take-over offer.

Amcom Telecom doubled its share-price, as a result of strong earnings growth from its dark fibre network and its strategic holding in internet service provider iiNet.

We also invest in iiNet directly. The stock climbed nearly 70%, after strong customer growth. iiNet is now the second largest DSL broadband internet service provider in Australia behind Telstra.

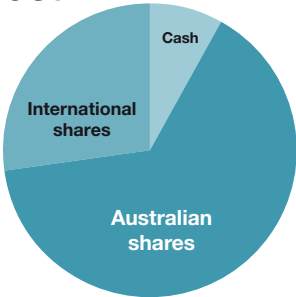
We continue to actively manage the fund, selecting quality companies with robust business models.



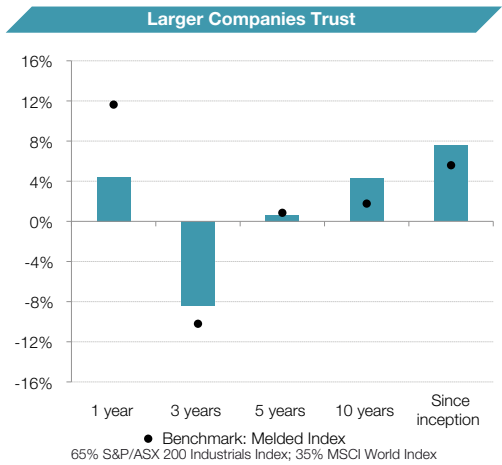
# Larger Companies Trust

The Larger Companies Trust returned 4.4% over the year compared to 11.6% for its benchmark.

The portfolio's defensive bias contributed to its underperformance and saw it miss the strong rebound in global share markets. Some individual holdings also performed poorly including Sigma Pharmaceuticals and Infigen Energy.



Among the strongest performing Australian shares were ResMed, Ansell and Seek. SMA Solar was the best performing international stock.

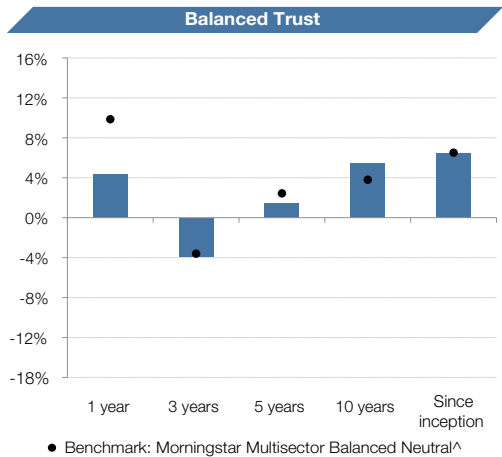


Balanced Trust

The Balanced Trust returned 4.4% over the year compared to 9.9% for its benchmark.

The fund held a higher than typical stake in the defensive healthcare sector, which did not benefit as much as the mining sector and larger banks from the rebound in share markets early in 2009–10. APA Group and Cochlear performed strongly rising 30.9% and 28.8% respectively.

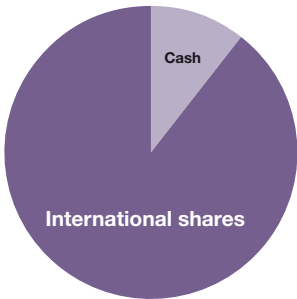
40% of the fund is invested in fixed interest, which performed solidly over the year. Credit concerns continued to ease, causing the value of these investments to rise. Increasing interest rates also benefited the fund.



International Equities Trust

The International Equities Trust returned 1.1% over the year compared to 5.6% for its benchmark.

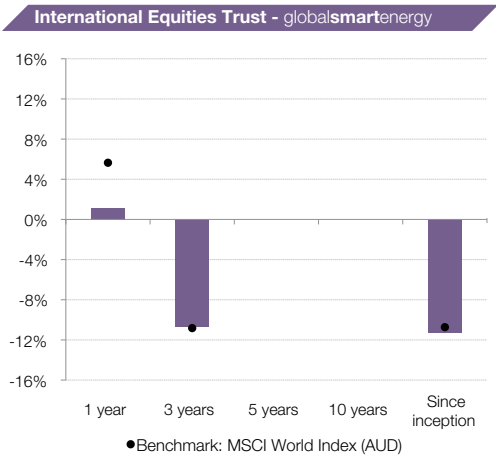
In January 2010 the fund was repositioned as a thematic fund focused on global**smartenergy**. The theme sees it invest in



only overseas companies that contribute to a sustainable energy supply or to reducing energy demand.

Renewable energy shares were subdued, but their low share prices are presenting good buying opportunities. Any overseas progress on clean energy legislation would likely see prices react positively.

The strongest performing investments included metal recycler, Asahi Pretec; efficient electric motor manufacturer, Baldor; virtualisation company, VMware; and public transport company, Arriva.



**Amcom Telecommunications**

A leading Australian provider of internet, information and communication technology services to business and residential clients in Adelaide, Darwin and Perth.

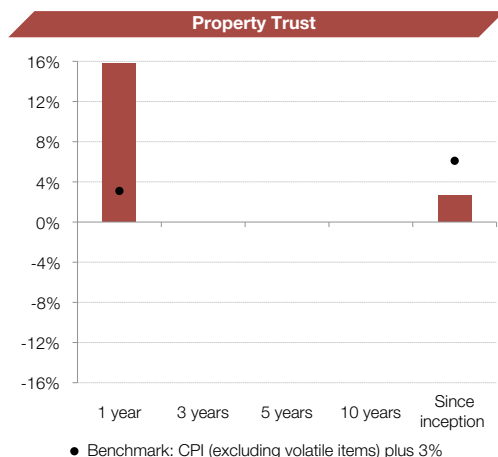
Property Trust

The Property Trust returned 15.8% over the year compared to 3.1% for its benchmark.

The fund owns the 64 Allara Street commercial building in Canberra and units in an unlisted property trust. The outperformance against the benchmark is due to an increase in valuation of the 64 Allara Street building. The fund portfolio has an occupancy rate of 97%.

The fund is actively seeking new investments in commercial buildings with a minimum 5 Star Green Star rating and in sectors such as education, social infrastructure and healthcare.

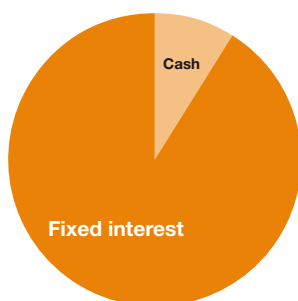




## Income Trust

The Income Trust's return of 5.1% exceeded the benchmark return of 4.1%.

The Reserve Bank began to unwind its response to the global financial crisis with six increases in interest rates over the year and these increases quickly flowed through to returns. The fund took advantage of the competition for deposits from banks and credit unions while remaining covered by a Commonwealth Government Guarantee for deposits of under \$1 million.



### 64 Allara Street, Canberra City, ACT

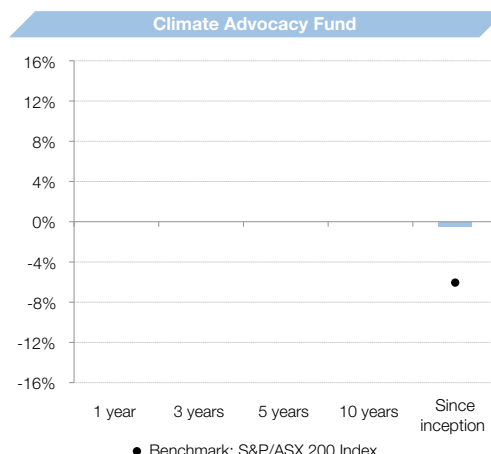
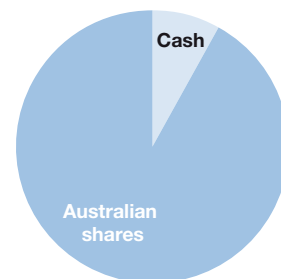
An attractive small scale 'A' grade property in the Canberra central business district. The building has a 5 Star Green Star rating and forms the cornerstone investment of the Property Trust.

## Climate Advocacy Fund

The Climate Advocacy Fund commenced operation on 18 February 2010. From this date to 30 June 2010 the fund returned -0.5% compared to -6.1% for its benchmark, the S&P/ASX 200 Accumulation Index.

The fund outperformed its benchmark by 5.55%. The fund invests in an economic footprint weighted index portfolio.

The fund collaborated with the Climate Institute in Australia and the Interfaith Centre for Corporate Responsibility in the US in preparing its first resolutions for Australian company AGMs. The fund plans to lodge resolutions with four ASX 200 companies on climate change issues for consideration at their next AGM. Details are available on the fund's website – [www.climateadvocacyfund.com.au](http://www.climateadvocacyfund.com.au).



### Past performance is not a reliable indicator of future performance.

Performance figures are calculated using exit prices and 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.australianethical.com.au](http://www.australianethical.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. 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.

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## **Directors' Report**

### **For the year ended 30 June 2010**

Australian Ethical Investment Limited, the responsible entity of the:

- Australian Ethical Balanced Trust (AEBT);
- Australian Ethical Property Trust (AEPT);
- Australian Ethical Smaller Companies Trust (AEST);
- Australian Ethical Income Trust (AEIT);
- Australian Ethical Larger Companies Trust (AELT);
- Australian Ethical World Trust (AEWT); and
- Australian Ethical International Equities Trust (AEIET);

(collectively “the Schemes”) presents its directors’ report together with the audited financial statements of the Schemes for the year ended 30 June 2010 and the accompanying independent auditor's report.

### **Responsible entity**

Australian Ethical Investment Limited was appointed the responsible entity of the AEBT, AEST, AEIT and AELT by election of unitholders on 20 August 1999 and those Schemes were registered as managed investment Schemes with the Australian Securities and Investments Commission (ASIC) on 2 November 1999.

The AEWT was registered as a managed investment scheme with ASIC on 2 February 2007 with Australian Ethical Investment Limited as its responsible entity.

The AEIET was registered as a managed investment scheme with ASIC on 23 April 2007 with Australian Ethical Investment Limited as its responsible entity.

The AEPT was registered as a managed investment scheme with ASIC on 17 July 2009 with Australian Ethical Investment Limited as its responsible entity.

The Directors of Australian Ethical Investment Limited during or since the end of the financial year are disclosed in note 21 to the financial statements.

### **Principal activities and state of affairs**

The principal activity of each of the Schemes is to pool investors’ savings to invest in diversified portfolios of securities, in accordance with their respective investment objectives and guidelines as set out in the current Product Disclosure Statement and within the provisions of each scheme's constitution. The constitution of each scheme authorises investments in a range of assets, which may include capital stable interest bearing securities and equity investments, both domestic and international. Investments are sought to pursue the goal of a just and sustainable society and the protection of the natural environment as well as providing unitholders (the Scheme investors) with a competitive financial return.

Except as otherwise described in the directors' report or the financial statements, there were no significant changes in the nature of each scheme's principal activities during the year and there were no significant changes in each scheme's state of affairs.

## **Review of year's operations**

### **Australian Ethical Balanced Trust**

The scheme achieved a total return of 4.40% for the financial year. The scheme paid distributions of 3.29 cents per unit over the year.

The value of the scheme's net assets attributable to unitholders as at 30 June 2010 was \$233,506,473.

### **Australian Ethical International Equities Trust**

The scheme achieved a total return of 1.1% for the financial year. The scheme did not pay a distribution for the year.

The value of the scheme's net assets attributable to unitholders as at 30 June 2010 was \$109,829,598.

The AEIET was made available to retail investors through the Product Disclosure Statement issued on 1 October 2009.

### **Australian Ethical Smaller Companies Trust**

The scheme achieved a total return of 4.9% for the financial year. The scheme paid distributions of 2.53 cents per unit over the year.

The value of the scheme's net assets attributable to unitholders as at 30 June 2010 was \$209,023,038.

### **Australian Ethical Income Trust**

The scheme achieved a total return of 5.1% for the financial year. The scheme paid distributions of 3.01 cents per unit over the year.

The value of the scheme's net assets attributable to unitholders as at 30 June 2010 was \$29,702,995.

### **Australian Ethical Larger Companies Trust**

The scheme achieved a total return of 4.4% for the financial year. The scheme paid distributions of 0.82 cents per unit over the year.

The value of the scheme's net assets attributable to unitholders as at 30 June 2010 was \$113,815,441.

### **Australian Ethical World Trust**

During this financial year the Australian Ethical World Trust was closed to investors and all existing investors either redeemed their investment or switched to one of the other Australian Ethical Managed Funds. The responsible entity is in the process of winding up the operations of the AEWT.

### **Australian Ethical Property Trust**

The Scheme achieved a total return of 15.8% for the financial year. The Scheme paid distributions of 3.40 cents per unit over the year.

The value of the Scheme's net assets attributable to unitholders as at 30 June 2010 was \$15,404,647.

The Trust was included in the October 2009 Product Disclosure Statement and has been available to investors through the last nine months of the financial year.

### **Developments through the period**

During the financial year, an application and redemption spread was introduced. This spread aims to provide equity between ongoing unit holders and transacting unit holders, and reflects transaction costs upon the entry and exit of unit holders.

As mentioned above the Australian Ethical Property Trust was established and made available to investors during the period.

On 7th December 2009, Mr Phillip Vernon commenced his employment as chief executive officer of the responsible entity, Australian Ethical Investment Ltd. On 27 July 2010 Mr Vernon was appointed Managing Director of the responsible entity.

The Responsible Entity's Chief Investment Officer (CIO), Martin Halloran, resigned in May 2010. He was replaced by James Jordan, previously Head of Research of the Responsible Entity.

In October 2009 the name of the Australian Ethical Equities Trust was changed to the Australian Ethical Smaller Companies Trust and the Australian Ethical Large Companies Share Trust was changed to the Australian Ethical Larger Companies Trust.

### **Likely developments**

The responsible entity continually reviews the Schemes it manages and depending on that review may, during the course of the financial year, make decisions to change the offerings of products to investors.

### **Events subsequent to balance date**

During July 2010, the Balanced Trusts' majority holding of the Property Trust was diluted below 50%, this is detailed in note 19.

Except as otherwise noted, during the period between the end of the financial year and the date of this report, there were no items, transactions or events of a material and unusual nature likely in the opinion of the responsible entity, to affect significantly the operations of the Schemes, the results of those operations, or the state of affairs of the Schemes in future financial years.

### **Distributions paid and/or payable**

Distributions paid and/or payable by the Schemes during the year are shown in the accompanying Statements of Comprehensive Income.

### **Indemnities and insurance premiums for the responsible entity and auditors**

No insurance premiums are paid out of the assets of the Schemes for insurance cover provided to the responsible entity, its officers or auditor of the Schemes. Where the responsible entity acts in accordance with each Scheme's constitution and the law it is generally entitled to an indemnity out of the assets of the Scheme against losses incurred while acting on behalf of the Scheme. The auditor of the Schemes is not indemnified out of the assets of the Schemes.

### **Interest of the responsible entity**

Fees paid to the responsible entity and its associates out of Scheme property and interests held in the Schemes are shown in note 16 of the attached financial statements.

### **Interests in the Schemes**

Full details of:

- interests in the Schemes issued during the financial year;
- withdrawals from the Schemes during the financial year; and
- the number of interests in the Schemes at the end of the financial year;

are contained in notes 2 and 3 of the attached financial statements.

### **Auditor's declaration**

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 forms part of this report and follows at the end of this report.

Signed in accordance with a resolution of the Board of Directors of Australian Ethical Investment Limited.



Phillip Vernon  
Managing Director  
Australian Ethical Investment Limited  
ABN 47 003 188 930  
22 September 2010

AUSTRALIAN ETHICAL BALANCED TRUST  
AUSTRALIAN ETHICAL PROPERTY TRUST  
AUSTRALIAN ETHICAL BALANCED TRUST CONSOLIDATED  
AUSTRALIAN ETHICAL SMALLER COMPANIES TRUST  
AUSTRALIAN ETHICAL INCOME TRUST  
AUSTRALIAN ETHICAL LARGER COMPANIES TRUST  
AUSTRALIAN ETHICAL WORLD TRUST  
AUSTRALIAN ETHICAL INTERNATIONAL EQUITIES TRUST

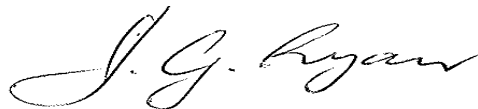
AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C  
OF THE CORPORATIONS ACT 2001

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2010 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.



THOMAS DAVIS & CO



J.G. RYAN PARTNER

SYDNEY  
22 September 2010

Liability limited by a scheme approved under Professional Standards Legislation

Statements of Financial Position as at 30 June 2010

		Balanced Trust ("AEBT")		Property Trust ("AEPT")		Balanced Trust Consolidated ("AEBTC") (i)		Smaller Companies Trust ("AEST") (ii)	
	Notes	2010 \$	2009 \$	2010 \$	2009 \$	2010 \$	2009 \$	2010 \$	2009 \$
<b>Assets</b>									
Cash and cash equivalents	4	10,590,101	7,865,268	589,493	96,079	11,179,594	10,544,593	7,092,517	15,057,959
Trade and other receivables	5	2,710,658	1,613,312	94,483	5,915	2,633,892	1,733,223	1,666,357	1,690,239
Financial assets	6	215,104,615	198,347,777	2,683,200	-	203,326,449	190,034,704	204,467,431	175,045,075
Loans	7	5,490,944	5,325,422	-	-	5,490,944	5,325,422	-	-
Investment properties	8	5,950,000	6,600,000	19,800,000	18,500,000	25,750,000	25,100,000	-	-
Other assets	9	42,315	-	145,085	-	187,400	-	29,901	-
<b>Total assets</b>		<b>239,888,633</b>	<b>219,751,779</b>	<b>23,312,261</b>	<b>18,601,994</b>	<b>248,568,279</b>	<b>232,737,942</b>	<b>213,256,206</b>	<b>191,793,273</b>
<b>Liabilities</b>									
Trade and other payables	10	879,729	399,580	328,913	56,301	1,208,642	515,331	726,950	2,205,512
Borrowings	11	-	-	7,400,000	7,400,000	7,400,000	7,400,000	-	-
Distribution payable	12	5,502,431	2,235,758	178,701	-	5,502,431	2,235,758	3,506,218	865,319
<b>Total liabilities excluding net assets attributable to unitholders</b>		<b>6,382,160</b>	<b>2,635,338</b>	<b>7,907,614</b>	<b>7,456,301</b>	<b>14,111,073</b>	<b>10,151,089</b>	<b>4,233,168</b>	<b>3,070,831</b>
<b>Net assets attributable to unitholders (before minority interests)</b>	3	<b>233,506,473</b>	<b>217,116,441</b>	<b>15,404,647</b>	<b>11,145,693</b>	<b>234,457,206</b>	<b>222,586,853</b>	<b>209,023,038</b>	<b>188,722,442</b>
<b>Minority interests</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>950,733</b>	<b>5,470,412</b>	<b>-</b>	<b>-</b>
<b>Net assets attributable to unitholders</b>		<b>233,506,473</b>	<b>217,116,441</b>	<b>15,404,647</b>	<b>11,145,693</b>	<b>233,506,473</b>	<b>217,116,441</b>	<b>209,023,038</b>	<b>188,722,442</b>
<b>Total liabilities</b>		<b>239,888,633</b>	<b>219,751,779</b>	<b>23,312,261</b>	<b>18,601,994</b>	<b>248,568,279</b>	<b>232,737,942</b>	<b>213,256,206</b>	<b>191,793,273</b>

The accompanying notes form part of these financial statements.

- (i) For the year ended 30 June 2010 the consolidated financial statements include the Australian Ethical Property Trust (AEPT). The comparative year consolidated financial statements include the Australian Ethical International Equities Trust (AEIET)
- (ii) Formerly known as the Australian Ethical Equities Trust

Statements of Financial Position as at 30 June 2010

		Income Trust ("AEIT")		Larger Companies Trust ("AELT") (iii)		World Trust ("AEWT")		International Equities Trust ("AEIET")	
	Notes	2010 \$	2009 \$	2010 \$	2009 \$	2010 \$	2009 \$	2010 \$	2009 \$
<b>Assets</b>									
Cash and cash equivalents	4	2,546,755	2,390,187	5,525,954	4,252,050	20,669	189,573	11,543,470	2,583,246
Trade and other receivables	5	342,966	197,116	1,250,333	881,099	333	18,096	1,201,013	113,996
Financial assets	6	26,481,005	26,225,231	126,013,436	103,836,929	-	5,759,878	98,210,713	35,028,299
Loans	7	1,140,608	1,363,884	-	-	-	-	-	-
Investment properties	8	-	-	-	-	-	-	-	-
Other assets	9	12,815	-	24,261	-	-	-	20,824	-
<b>Total assets</b>		<b>30,524,149</b>	<b>30,176,418</b>	<b>132,813,984</b>	<b>108,970,078</b>	<b>21,002</b>	<b>5,967,547</b>	<b>110,976,020</b>	<b>37,725,541</b>
<b>Liabilities</b>									
Trade and other payables	10	156,098	47,159	18,315,062	315,506	9,205	10,119	1,146,422	59,450
Borrowings	11	-	-	-	-	-	-	-	-
Distribution payable	12	665,056	420,403	683,481	-	-	-	-	-
<b>Total liabilities excluding net assets attributable to unitholders</b>		<b>821,154</b>	<b>467,562</b>	<b>18,998,543</b>	<b>315,506</b>	<b>9,205</b>	<b>10,119</b>	<b>1,146,422</b>	<b>59,450</b>
<b>Net assets attributable to unitholders (before minority interests)</b>	3	<b>29,702,995</b>	<b>29,708,856</b>	<b>113,815,441</b>	<b>108,654,572</b>	<b>11,797</b>	<b>5,957,428</b>	<b>109,829,598</b>	<b>37,666,091</b>
<b>Minority interests</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net assets attributable to unitholders</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total liabilities</b>		<b>30,524,149</b>	<b>30,176,418</b>	<b>132,813,984</b>	<b>108,970,078</b>	<b>21,002</b>	<b>5,967,547</b>	<b>110,976,020</b>	<b>37,725,541</b>

The accompanying notes form part of these financial statements.

(iii) Formerly known as the Australian Ethical Large Companies Share Trust

**Statements of Comprehensive Income for the year ended 30 June 2010**

		<b>Balanced Trust ("AEBT")</b>	<b>Property Trust ("AEPT")</b>	<b>Balanced Trust Consolidated ("AEBTC") (i)</b>	<b>Smaller Companies Trust ("AEST") (ii)</b>	
	Notes	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>	<b>2010</b>
		\$	\$	\$	\$	\$
<b>Investment income</b>						
Distributions		1,624,488	2,155,468	145,600	-	1,264,379
Dividends domestic		2,065,636	1,992,812	-	-	2,065,636
Dividends overseas		-	46,815	-	-	843,959
Foreign exchange hedging revenue		-	42,884	-	-	42,884
Interest		5,182,672	6,238,962	24,681	13,787	5,207,353
Other income		25,806	7,659	5,771	-	31,577
Rent		629,089	610,058	1,473,776	14,189	2,102,865
Profit (loss) on foreign exchange		-	(122,644)	-	-	(488,553)
Profit (loss) on sale of investments		1,953,215	(13,225,884)	-	-	1,953,215
Unrealised increment (decrement) on fluctuation in value of investments		2,084,050	(5,486,307)	1,367,721	-	(1,335,655)
		<b>13,564,956</b>	<b>(7,740,177)</b>	<b>3,017,549</b>	<b>27,976</b>	<b>14,838,206</b>
						<b>(6,856,492)</b>
						<b>14,732,081</b>
						3,150,413
<b>Less expenditure</b>						
Accounting fees	16	301,019	275,159	30,800	-	331,819
Administration costs		154,879	42,035	9,705	-	164,584
Auditors' remuneration	13	44,773	40,166	2,750	-	47,523
Borrowing costs		-	-	463,972	138,412	463,972
Foreign exchange hedging costs		-	62,964	-	-	62,964
Legal fees		2,905	2,836	67,783	25,209	70,688
Investment properties - general		55,712	56,358	196,257	1,267,829	251,969
Investment properties - rates & taxes		49,109	37,752	78,468	833	127,577
Reimbursable expenses	16	52,908	73,717	17	-	52,925
Responsible entity fees	16	3,652,625	3,610,398	138,982	-	3,791,607
		<b>4,313,930</b>	<b>4,201,385</b>	<b>988,734</b>	<b>1,432,283</b>	<b>5,302,664</b>
						<b>6,283,982</b>
						<b>4,933,933</b>
						6,194,681
<b>Profit (loss) from operating activities</b>		<b>9,251,026</b>	<b>(11,941,562)</b>	<b>2,028,815</b>	<b>(1,404,307)</b>	<b>9,535,542</b>
						<b>(13,140,474)</b>
						<b>9,798,148</b>
						(3,044,268)
<b>Other comprehensive income</b>		-	-	-	-	-
						-
<b>Total comprehensive income attributable to unitholders</b>		<b>9,251,026</b>	<b>(11,941,562)</b>	<b>2,028,815</b>	<b>(1,404,307)</b>	<b>9,535,542</b>
						<b>(13,140,474)</b>
						<b>9,798,148</b>
						(3,044,268)
Finance costs - distributions to unitholders	12	<b>(7,416,678)</b>	<b>(6,770,631)</b>	<b>(519,278)</b>	-	<b>(7,416,678)</b>
						<b>(6,770,631)</b>
						<b>(3,506,218)</b>
						(865,319)
<b>Change in net assets attributable to unitholders (before minority interests)</b>	3	<b>1,834,348</b>	<b>(18,712,193)</b>	<b>1,509,537</b>	<b>(1,404,307)</b>	<b>2,118,864</b>
						<b>(19,911,105)</b>
						<b>6,291,930</b>
						(3,909,587)
<b>Minority interests</b>		-	-	-	-	284,516
						<b>(1,198,912)</b>
						-
						-
<b>Change in net assets attributable to unitholders</b>		<b>1,834,348</b>	<b>(18,712,193)</b>	<b>1,509,537</b>	<b>(1,404,307)</b>	<b>1,834,348</b>
						<b>(18,712,193)</b>
						<b>6,291,930</b>
						(3,909,587)

The accompanying notes form part of these financial statements.

(i) For the year ended 30 June 2010 the consolidated financial statements include the Australian Ethical Property Trust (AEPT). The comparative year consolidated financial statements include the Australian Ethical International Equities Trust (AEIET)

(ii) Formerly known as the Australian Ethical Equities Trust

Statements of Comprehensive Income for the year ended 30 June 2010

		Income Trust ("AEIT")	Larger Companies Trust ("AELT") (iii)	World Trust ("AEWT")	International Equities Trust ("AEIET")	
Notes	2010 \$	2009 \$	2010 \$	2009 \$	2010 \$	2009 \$
<b>Investment income</b>						
Distributions	-	44,013	893,013	554,083	-	-
Dividends domestic	-	-	2,376,862	2,589,071	-	-
Dividends overseas	-	-	337,509	701,843	-	797,144
Foreign exchange hedging revenue	-	-	1,142,271	687,945	9,188	-
Interest	1,323,584	1,677,815	177,331	221,375	8,015	151,878
Other income	344,510	27,434	74,775	-	-	47,757
Rent	-	-	-	-	-	-
Profit (loss) on foreign exchange	-	-	(986,481)	(1,208,476)	30,939	139,854
Profit (loss) on sale of investments	-	-	6,931,135	(16,563,761)	140,394	(32,933)
Unrealised increment (decrement) on fluctuation in value of investments	303,352	(380,121)	(2,777,843)	6,104,136	(48,196)	(979,824)
	1,971,446	1,369,141	8,168,572	(6,913,784)	140,340	(808,662)
<b>Less expenditure</b>						
Accounting fees	16	102,937	91,958	157,461	140,951	13,365
Administration costs		46,047	16,629	117,627	74,390	5,340
Auditors' remuneration	13	15,437	13,572	23,018	20,674	5,575
Borrowing costs		-	-	-	-	-
Foreign exchange hedging costs		-	-	661,680	1,838,360	71,331
Legal fees		1,708	-	1,708	-	-
Investment properties - general		-	-	-	-	-
Investment properties - rates & taxes		-	-	-	-	-
Reimbursable expenses	16	5,045	6,876	40,288	57,792	2,487
Responsible entity fees	16	335,217	324,777	2,013,747	2,117,846	14,473
		506,391	453,812	3,015,529	4,250,013	112,571
<b>Profit (loss) from operating activities</b>		1,465,055	915,329	5,153,043	(11,163,797)	27,769
<b>Other comprehensive income</b>		-	-	-	-	-
<b>Total comprehensive income attributable to unitholders</b>		1,465,055	915,329	5,153,043	(11,163,797)	27,769
Finance costs - distributions to unitholders	12	(932,238)	(1,295,450)	(683,481)	-	-
<b>Change in net assets attributable to unitholders (before minority interests)</b>	3	532,817	(380,121)	4,469,562	(11,163,797)	27,769
<b>Minority interests</b>		-	-	-	-	-
<b>Change in net assets attributable to unitholders</b>		532,817	(380,121)	4,469,562	(11,163,797)	27,769

The accompanying notes form part of these financial statements.

(iii) Formerly known as the Australian Ethical Large Companies Share Trust

**Statements of Cash Flows for the year ended 30 June 2010**

	Balanced Trust ("AEBT")		Property Trust ("AEPT")		Balanced Trust Consolidated ("AEBTC") (i)		Smaller Companies Trust ("AEST") (ii)	
Notes	2010 \$	2009 \$	2010 \$	2009 \$	2010 \$	2009 \$	2010 \$	2009 \$
<b>Cash flows from operating activities</b>								
Interest received	5,084,125	6,559,578	13,398	13,787	5,097,523	6,717,837	496,049	712,190
Dividends received	1,979,536	2,039,041	-	-	1,979,536	2,823,076	5,289,459	4,369,441
Distributions received	1,361,791	3,111,867	109,200	-	1,136,531	3,111,867	875,888	2,347,456
Other income received	256,402	732,720	1,222,909	14,189	1,479,311	983,965	880,257	569,545
Expenses	(4,269,626)	(4,282,789)	(645,454)	(1,381,897)	(4,915,080)	(7,016,238)	(5,786,963)	(4,568,913)
Net cash provided by (used in) operating activities	14 4,412,228	8,160,417	700,053	(1,353,921)	4,777,821	6,620,507	1,754,690	3,429,719
<b>Cash flows from investing activities</b>								
Proceeds from sale of investments	142,292,099	218,457,458	-	-	142,292,099	264,115,525	184,244,873	231,874,497
Customer loans repaid	1,426,254	7,467,181	-	-	1,426,254	7,467,181	-	-
Customer loans granted	(1,449,647)	(7,006,911)	-	-	(1,449,647)	(7,006,911)	-	-
Purchase of Property, Plant & Equipment	-	-	-	(18,500,000)	-	(18,500,000)	-	-
Payment for investments	(154,462,512)	(224,321,055)	(2,683,200)	-	(155,062,512)	(256,807,263)	(207,064,528)	(239,019,438)
Net cash provided by (used in) investing activities	(12,193,806)	(5,403,327)	(2,683,200)	(18,500,000)	(12,793,806)	(10,731,468)	(22,819,655)	(7,144,941)
<b>Cash flows from financing activities</b>								
Proceeds from issue of units	23,622,186	12,678,840	2,816,680	12,550,000	24,355,666	13,588,839	22,130,385	15,876,014
Payment of redemption of units	(12,383,170)	(11,929,984)	-	-	(12,383,170)	(12,229,984)	(8,830,466)	(10,958,756)
Proceeds from/(repayment of) borrowings	-	-	-	7,400,000	-	7,400,000	-	-
Distributions paid	(732,605)	(1,668,776)	(340,119)	-	(738,264)	(1,668,776)	(200,396)	(537,970)
Net cash provided by (used in) financing activities	10,506,411	(919,920)	2,476,561	19,950,000	11,234,232	7,090,079	13,099,523	4,379,288
Net increase (decrease) in cash held	2,724,833	1,837,170	493,414	96,079	3,218,247	2,979,118	(7,965,442)	664,066
Cash at 1 July 2009	7,865,268	6,028,098	96,079	-	7,961,347	7,565,475	15,057,959	14,393,893
Cash at 30 June 2010	4 10,590,101	7,865,268	589,493	96,079	11,179,594	10,544,593	7,092,517	15,057,959

The accompanying notes form part of these financial statements.

(i) For the year ended 30 June 2010 the consolidated financial statements include the Australian Ethical Property Trust (AEPT). The comparative year consolidated financial statements include the Australian Ethical International Equities Trust (AEIET)

(ii) Formerly known as the Australian Ethical Equities Trust

Statements of Cash Flows for the year ended 30 June 2010

	Income Trust ("AEIT")		Larger Companies Trust ("AELT") (iii)		World Trust ("AEWT")		International Equities Trust ("AEIET")	
Notes	2010 \$	2009 \$	2010 \$	2009 \$	2010 \$	2009 \$	2010 \$	2009 \$
<b>Cash flows from operating activities</b>								
Interest received	1,219,442	1,762,592	168,804	232,964	8,320	10,387	136,215	144,472
Dividends received	-	-	2,717,961	3,163,352	-	-	1,246,679	784,035
Distributions received	-	-	456,603	977,818	-	-	-	-
Other income received	102,512	71,447	1,212,228	1,177,979	40,034	193,887	64,540	237,056
Expenses	(450,789)	(449,626)	(3,501,303)	(4,073,420)	(23,143)	(99,558)	(3,212,125)	(1,351,552)
Net cash provided by (used in) operating activities	14 871,165	1,384,413	1,054,293	1,478,693	25,211	104,716	(1,764,691)	(185,989)
<b>Cash flows from investing activities</b>								
Proceeds from sale of investments	35,507,519	27,717,748	161,668,146	288,218,565	5,807,601	300,000	72,642,029	45,658,067
Customer loans repaid	222,706	2,274,413	-	-	-	-	-	-
Customer loans granted	-	(1,542,206)	-	-	-	-	-	-
Purchase of Property, Plant & Equipment	-	-	-	-	-	-	-	-
Payment for investments	(35,230,935)	(31,304,834)	(162,145,759)	(286,102,853)	(26,857)	(1,161,222)	(136,215,785)	(53,270,044)
Net cash provided by (used in) investing activities	499,290	(2,854,879)	(477,613)	2,115,712	5,780,744	(861,222)	(63,573,756)	(7,611,977)
<b>Cash flows from financing activities</b>								
Proceeds from issue of units	3,740,239	9,926,727	10,648,728	6,508,055	239,361	1,426,103	82,693,107	9,143,835
Payment of redemption of units	(4,888,598)	(7,126,084)	(9,950,138)	(8,704,200)	(6,214,220)	(575,112)	(8,394,436)	(300,000)
Proceeds from/(repayment of) borrowings	-	-	-	-	-	-	-	-
Distributions paid	(65,528)	(445,828)	(1,366)	(153,644)	-	-	-	-
Net cash provided by (used in) financing activities	(1,213,887)	2,354,815	697,224	(2,349,789)	(5,974,859)	850,991	74,298,671	8,843,835
Net increase (decrease) in cash held	156,568	884,349	1,273,904	1,244,616	(168,904)	94,485	8,960,224	1,045,869
Cash at 1 July 2009	2,390,187	1,505,838	4,252,050	3,007,434	189,573	95,088	2,583,246	1,537,377
Cash at 30 June 2010	4 2,546,755	2,390,187	5,525,954	4,252,050	20,669	189,573	11,543,470	2,583,246

The accompanying notes form part of these financial statements.

(iii) Formerly known as the Australian Ethical Large Companies Share Trust

**Note 1 - Statement of significant accounting policies**

These Financial Statements are general purpose financial Statements that have been prepared in accordance with the Constitutions of each scheme, Australian Accounting Standards, Australian accounting interpretations and other authoritative pronouncements of the Australian Accounting Standards Board.

The Financial Reports cover each scheme as an individual entity, (except for "Balanced Trust Consolidated"). Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards. The schemes are established and domiciled in Australia.

As the schemes have the same Responsible Entity, the Financial Reports for the schemes are presented in a single document as permitted by ASIC class order 06/441.

The following is a summary of the material accounting policies adopted by the schemes in the preparation of the Financial Statements. The accounting policies have been consistently applied, unless otherwise stated.

*Reporting Basis and Conventions*

The Financial Statements have been prepared on an accruals basis and are based on historical costs modified by the revaluation of selected financial assets for which the fair value basis of accounting has been applied.

**Accounting policies**

**(a) Cash and cash equivalents**

Cash and cash equivalents include cash on hand and deposits held at call with banks.

**(b) Financial instruments**

**Recognition**

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

**Financial assets at fair value through profit and loss**

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management and within the requirements of AASB 139: Recognition and Measurement of Financial Instruments.

AEST and AELT hold derivatives which are also categorised as held for trading unless they are designated as hedges. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the statement of comprehensive income in the period in which they arise.

**Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

**Financial liabilities**

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

**Note 1 - Statement of significant accounting policies - *continued***

**(b) Financial instruments - *continued***

**Fair value**

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

**(c) Investment property**

AEBT and the AEPT hold investment properties (principally Crown leasehold office complexes), to generate long-term rental yields. All tenant leases are on an arm's length basis. Investment property is carried at fair value, determined every 12 months by independent valuers. Changes to fair value are recorded in the statement of comprehensive income.

**(d) Payables**

Liabilities are recognised for all amounts due at balance date. Creditors are normally settled within 30 days.

**(e) Distribution**

Australian Ethical distributes to the unitholders of each scheme the income (generally net taxable income plus non-taxable income, not including realised capital gains) earned by the schemes each six months. In addition, normally taxable capital gains realised over the full financial year will be included with the distribution for the six months ending 30 June. The non-taxable component of income may be retained in the schemes.

'Net taxable income' is all the income earned by the schemes, less expenses incurred in obtaining that income, and is determined in accordance with section 95 of the Income Tax Assessment Act.

**(f) Change in net assets attributable to unitholders**

Change in net assets attributable to unitholders may consist of realised net capital losses and unrealised increments and decrements arising on fluctuation in value of investments. They are included in the determination of distributable income when assessable for taxation purposes.

**(g) Revenue**

Revenue from investment properties is recognised on an accrual basis, when the scheme has a right to receive the rent in accordance with the lease agreement.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Dividend revenue is recognised when the right to receive a dividend has been established.

Trust distributions are recognised on an accrual basis.

Unrealised increments and decrements arising on fluctuation in value of investments are included in the net operating income for the year.

**(h) Applications and redemptions**

Applications received for units in each scheme are recorded net of any contribution fees payable prior to the issue of units in each scheme. No exit fees are charged. Unit prices are determined by reference to the net assets of each scheme divided by the number of units on issue at close of business each day, with a buy / sell spread applied to all trusts except for the Income Trust.

All or part of an investment can be switched between the Australian Ethical schemes. The contribution fee charged on a switch is the difference between the contribution fee for the original scheme and the new scheme. Further details can be found in the Australian Ethical Investment Trust's Product Disclosure Statement.

**Note 1 - Statement of significant accounting policies - *continued***

**(i) Goods and services tax (GST)**

The schemes qualify for reduced input tax credits (RITC's) at a rate of 75%.

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables in the statement of financial position are shown inclusive of GST. The net amount of GST recoverable from the ATO is included in receivables in the statement of financial position.

Cash flows are presented in the Statement of Cash Flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

**(j) Income tax**

No tax is payable by the schemes as all taxable income is distributed to unitholders.

**(k) Foreign currency transactions and balances**

AEBT, AEST, AELT and AEIET foreign currency transactions are translated into Australian currency at the rate of exchange applicable at the date of the transaction. Amounts payable and receivable in foreign currencies at balance date are translated at the year-end exchange rate. The resulting gains and losses are included in the statement of comprehensive income in the period they arise.

**(l) Currency options**

AEST and AELT hold options which are purchased to hedge against foreign currency exposure. The cost is amortised over the period of the option. The options are valued using the Black Scholes pricing model, which is common place as a valuation method for these derivatives across the wider market.

**(m) Comparative figures**

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

**(n) Principles of consolidation**

A controlled entity is any entity where the schemes have the power to control the financial and operating policies so as to obtain benefits from its activities.

A list of controlled entities is contained in Note 18 to the financial statements. All controlled entities have a June year-end.

All inter-company balances and transactions between entities in the consolidated group, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the parent entity.

Where controlled entities have entered or left the consolidated group during the year, their operating results have been included/excluded from the date control was obtained or until the date control ceased.

**Note 1 - Statement of significant accounting policies - *continued***

**Accounting Standards not previously applied**

The Schemes have adopted the following new and revised Australian Accounting Standards issued by the AASB which are mandatory to apply to the current period. Disclosures required by these Standards that are deemed material have been included in these financial reports on the basis that they represent a significant change in information from that previously made available.

*Presentation of Financial Statements*

AASB 101 prescribes the contents and structure of the financial statements. Changes reflected in these financial reports include:

- the replacement of the income statement with the statement of comprehensive income. Items of income and expense not recognised in profit or loss are now disclosed as components of 'other comprehensive income';
- the adoption of the single statement approach to the presentation of the statement of comprehensive income; and
- other financial statements are renamed in accordance with the Standard.

**New accounting standards for application in future periods**

The AASB has issued new, revised and amended accounting standards and interpretations that have mandatory application dates for future reporting periods. The management of the Schemes has decided against early adoption of these standards. A discussion of those future requirements and their impact on the Schemes follows:

AASB 9: Financial Instruments and AASB 2009-11: Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12] (applicable for annual reporting periods commencing on or after 1 January 2013). These standards are applicable retrospectively and amend the classification and measurement of financial assets. The Scheme management has not yet determined the potential impact on the financial statements.

AASB 124: Related Party Disclosures (applicable for annual reporting periods commencing on or after 1 January 2011). This standard removes the requirement for government related entities to disclose details of all transactions with the government and other government related entities and clarifies the definition of a related party to remove inconsistencies and simplify the structure of the standard. No changes are expected to materially affect the Schemes.

AASB 2009-8: Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions [AASB 2] (applicable for annual reporting periods commencing on or after 1 January 2010). These amendments clarify the accounting for group cash-settled share-based payment transactions in the separate or individual financial statements of the entity receiving the goods or services when the entity has no obligation to settle the share-based payment transaction. The amendments incorporate the requirements previously included in Interpretation 8 and Interpretation 11 and as a consequence, these two Interpretations are superseded by the amendments. These amendments are not expected to impact the Schemes.

AASB 2009-10: Amendments to Australian Accounting Standards – Classification of Rights Issues [AASB 132] (applicable for annual reporting periods commencing on or after 1 February 2010). These amendments clarify that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights, options or warrants pro-rata to all existing owners of the same class of its non-derivative equity instruments. These amendments are not expected to impact the Schemes.

AASB 2009-12: Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052] (applicable for annual reporting periods commencing on or after 1 January 2011). This standard makes a number of editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of International Financial reporting Standards by the IASB. The standard also amends AASB 8 to require entities to exercise judgement in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. These amendments are not expected to impact the Schemes.

AASB 2009-13: Amendments to Australian Accounting Standards arising from Interpretations 19 [AASB 1] (applicable for annual reporting periods commencing on or after 1 July 2010). This standard makes amendments to AASB 1 arising from the issue of Interpretation 19. The amendments allow a first-time adopter to apply the transitional provisions in Interpretation 19. This standard is not expected to impact the Schemes.

Notes to the financial statements for the year ended 30 June 2010

**Note 2 - Number of Issued Units**

	Balanced Trust ("AEBT")		Property Trust ("AEPT")		Balanced Trust Consolidated ("AEBTC")		Smaller Companies Trust ("AEST")	
	2010 Units	2009 Units	2010 Units	2009 Units	2010 Units	2009 Units	2010 Units	2009 Units
On issue at beginning of year	212,916,337	205,782,761	12,550,000	-	225,466,337	213,134,823	129,866,602	125,968,588
Issued	25,361,898	18,560,628	2,954,790	12,550,000	26,008,433	26,591,419	14,081,613	12,336,214
Redeemed	(11,820,221)	(11,427,052)	-	-	(11,820,221)	(13,204,585)	(5,412,287)	(8,438,200)
On issue at year end	226,458,014	212,916,337	15,504,790	12,550,000	239,654,549	226,521,657	138,535,928	129,866,602

**Note 3 - Net assets attributable to unitholders**

	Balanced Trust ("AEBT")		Property Trust ("AEPT")		Balanced Trust Consolidated ("AEBTC")		Smaller Companies Trust ("AEST")	
	2010 \$	2009 \$	2010 \$	2009 \$	2010 \$	2009 \$	2010 \$	2009 \$
Opening balance	217,116,441	228,550,266	11,145,693	-	217,116,441	234,609,591	188,722,442	186,945,137
Issued	27,144,178	19,227,824	2,749,417	12,550,000	27,810,395	20,137,823	22,894,859	17,042,330
Redeemed	(12,588,494)	(11,949,456)	-	-	(12,588,494)	(12,249,456)	(8,886,193)	(11,355,438)
Change in net assets attributable to unitholders	1,834,348	(18,712,193)	1,509,537	(1,404,307)	2,118,864	(19,911,105)	6,291,930	(3,909,587)
Total net assets attributable to unitholders	233,506,473	217,116,441	15,404,647	11,145,693	234,457,206	222,586,853	209,023,038	188,722,442

Notes to the financial statements for the year ended 30 June 2010

**Note 2 - Number of Issued Units**

	Income Trust ("AEIT")		Larger Companies Trust ("AELT")		World Trust ("AEWT")		International Equities Trust ("AEIET")	
	2010 Units	2009 Units	2010 Units	2009 Units	2010 Units	2009 Units	2010 Units	2009 Units
On issue at beginning of year	31,478,107	27,832,141	82,358,731	84,008,575	8,850,123	7,900,867	55,306,917	42,597,190
Issued	4,524,817	11,240,259	7,370,196	5,263,142	343,256	1,741,559	115,759,017	14,487,260
Redeemed	(5,085,787)	(7,594,293)	(6,863,765)	(6,912,986)	(9,171,548)	(792,303)	(12,080,403)	(1,777,533)
On issue at year end	30,917,137	31,478,107	82,865,162	82,358,731	21,831	8,850,123	158,985,531	55,306,917

**Note 3 - Net assets attributable to unitholders**

	Income Trust ("AEIT")		Larger Companies Trust ("AELT")		World Trust ("AEWT")		International Equities Trust ("AEIET")	
	2010 \$	2009 \$	2010 \$	2009 \$	2010 \$	2009 \$	2010 \$	2009 \$
Opening balance	29,708,856	26,590,095	108,654,572	122,165,574	5,957,428	6,531,316	37,666,091	35,107,184
Issued	4,367,597	10,720,912	10,631,780	6,884,456	238,402	1,211,846	82,693,108	10,127,471
Redeemed	(4,906,275)	(7,222,030)	(9,940,473)	(9,231,661)	(6,211,802)	(575,732)	(8,396,926)	(1,283,636)
Change in net assets attributable to unitholders	532,817	(380,121)	4,469,562	(11,163,797)	27,769	(1,210,002)	(2,132,675)	(6,284,928)
Total net assets attributable to unitholders	29,702,995	29,708,856	113,815,441	108,654,572	11,797	5,957,428	109,829,598	37,666,091

Notes to the financial statements for the year ended 30 June 2010

**Note 4 - Cash and cash equivalents**

	Balanced Trust ("AEBT")		Property Trust ("AEPT")		Balanced Trust Consolidated ("AEBTC")		Smaller Companies Trust ("AEST")	
	2010 \$	2009 \$	2010 \$	2009 \$	2010 \$	2009 \$	2010 \$	2009 \$
Cash at bank	10,590,101	7,865,268	589,493	96,079	11,179,594	10,544,593	7,092,517	15,057,959
	10,590,101	7,865,268	589,493	96,079	11,179,594	10,544,593	7,092,517	15,057,959

Cash at bank earns interest at floating rates based on daily bank deposit rates.

**Reconciliation of cash**

For the purposes of the Statement of Cashflows, Cash includes Cash at Bank and Cash on Deposit. Cash at the end of the year as shown in the Statement of Cashflows is reconciled to the related items in the Statement of financial position as follows:

	Balanced Trust ("AEBT")		Property Trust ("AEPT")		Balanced Trust Consolidated ("AEBTC")		Smaller Companies Trust ("AEST")	
Cash at bank	10,590,101	7,865,268	589,493	96,079	11,179,594	10,544,593	7,092,517	15,057,959
	10,590,101	7,865,268	589,493	96,079	11,179,594	10,544,593	7,092,517	15,057,959

**Note 5 - Trade and other receivables**

	Balanced Trust ("AEBT")		Property Trust ("AEPT")		Balanced Trust Consolidated ("AEBTC")		Smaller Companies Trust ("AEST")	
Dividend receivable	83,200	4,301	-	-	83,200	22,625	367,612	291,761
Interest receivable	709,676	611,127	11,283	-	720,959	618,530	28,288	39,869
Investment sales	1,541	39,260	-	-	1,541	39,260	-	64,678
Rent and other income receivable	2,949	11,509	2,341	-	5,290	11,509	-	-
Distributions receivable	811,319	548,622	36,400	-	676,470	548,622	350,913	553,072
Debtors	1,101,973	398,493	44,459	5,915	1,146,432	492,677	919,544	740,859
	2,710,658	1,613,312	94,483	5,915	2,633,892	1,733,223	1,666,357	1,690,239

Notes to the financial statements for the year ended 30 June 2010

**Note 4 - Cash and cash equivalents**

	Income Trust ("AEIT")		Larger Companies Trust ("AELT")		World Trust ("AEWT")		International Equities Trust ("AEIET")	
	2010 \$	2009 \$	2010 \$	2009 \$	2010 \$	2009 \$	2010 \$	2009 \$
Cash at bank	2,546,755	2,390,187	5,525,954	4,252,050	20,669	189,573	11,543,470	2,583,246
	<b>2,546,755</b>	<b>2,390,187</b>	<b>5,525,954</b>	<b>4,252,050</b>	<b>20,669</b>	<b>189,573</b>	<b>11,543,470</b>	<b>2,583,246</b>

Cash at bank earns interest at floating rates based on daily bank deposit rates.

**Reconciliation of cash**

For the purposes of the Statement of Cashflows, Cash includes Cash at Bank and Cash on Deposit. Cash at the end of the year as shown in the Statement of Cashflows is reconciled to the related items in the Statement of financial position as follows:

	Income Trust ("AEIT")		Larger Companies Trust ("AELT")		World Trust ("AEWT")		International Equities Trust ("AEIET")	
Cash at bank	2,546,755	2,390,187	5,525,954	4,252,050	20,669	189,573	11,543,470	2,583,246
	<b>2,546,755</b>	<b>2,390,187</b>	<b>5,525,954</b>	<b>4,252,050</b>	<b>20,669</b>	<b>189,573</b>	<b>11,543,470</b>	<b>2,583,246</b>

**Note 5 - Trade and other receivables**

	Income Trust ("AEIT")		Larger Companies Trust ("AELT")		World Trust ("AEWT")		International Equities Trust ("AEIET")	
Dividend receivable	-	-	240,181	243,773	-	-	72,804	18,324
Interest receivable	270,371	166,229	18,185	9,658	171	475	23,066	7,403
Investment sales	1,028	-	-	32,884	-	-	862,958	-
Rent and other income receivable	-	-	-	-	-	-	-	-
Distributions receivable	-	-	768,206	331,795	-	-	-	-
Debtors	71,567	30,887	223,761	262,989	162	17,621	242,185	88,269
	<b>342,966</b>	<b>197,116</b>	<b>1,250,333</b>	<b>881,099</b>	<b>333</b>	<b>18,096</b>	<b>1,201,013</b>	<b>113,996</b>

Notes to the financial statements for the year ended 30 June 2010

Note 6 - Financial assets at fair value through profit or loss

	Balanced Trust ("AEBT")		Property Trust ("AEPT")		Balanced Trust Consolidated ("AEBTC")		Smaller Companies Trust ("AEST")	
	2010 \$	2009 \$	2010 \$	2009 \$	2010 \$	2009 \$	2010 \$	2009 \$
<b>Equities</b>								
Australian listed	52,093,797	41,520,589	-	-	52,093,797	41,520,589	160,094,046	120,612,301
International listed	-	-	-	-	-	35,028,299	-	33,076,994
Unlisted	-	-	-	-	-	-	408,467	376,365
	52,093,797	41,520,589	-	-	52,093,797	76,548,888	160,502,513	154,065,660
<b>Unit trusts</b>								
Listed	5,171,005	5,445,439	-	-	5,171,005	5,445,439	-	-
Unlisted	64,892,930	57,010,496	2,083,200	-	52,514,764	13,669,124	33,644,765	-
	70,063,935	62,455,935	2,083,200	-	57,685,769	19,114,563	33,644,765	-
<b>Stapled securities</b>								
Listed	8,308,431	13,750,574	-	-	8,308,431	13,750,574	9,212,895	19,363,651
Unlisted	-	-	-	-	-	-	1,073,966	1,113,563
	8,308,431	13,750,574	-	-	8,308,431	13,750,574	10,286,861	20,477,214
<b>Derivatives</b>								
Currency options	-	-	-	-	-	-	33,292	502,201
Foreign exchange forwards	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	33,292	502,201
<b>Interest bearing securities</b>								
Notes/debt instruments secured	15,115,346	6,014,879	-	-	15,115,346	6,014,879	-	-
Notes/debt instruments unsecured	69,523,106	74,305,800	600,000	-	70,123,106	74,305,800	-	-
Deposits	-	300,000	-	-	-	300,000	-	-
	84,638,452	80,620,679	600,000	-	85,238,452	80,620,679	-	-
	215,104,615	198,347,777	2,683,200	-	203,326,449	190,034,704	204,467,431	175,045,075

Notes to the financial statements for the year ended 30 June 2010

Note 6 - Financial assets at fair value through profit or loss

	Income Trust ("AEIT")		Larger Companies Trust ("AELT")		World Trust ("AEWT")		International Equities Trust ("AEIET")	
	2010 \$	2009 \$	2010 \$	2009 \$	2010 \$	2009 \$	2010 \$	2009 \$
<b>Equities</b>								
Australian listed	-	-	61,416,366	59,394,674	-	-	-	-
International listed	-	-	-	36,440,596	-	-	98,210,713	35,028,299
Unlisted	-	-	-	-	-	-	-	-
	-	-	61,416,366	95,835,270	-	-	98,210,713	35,028,299
<b>Unit trusts</b>								
Listed	-	-	8,942,761	2,252,320	-	-	-	-
Unlisted	-	-	34,766,644	-	-	5,667,206	-	-
	-	-	43,709,405	2,252,320	-	5,667,206	-	-
<b>Stapled securities</b>								
Listed	-	325,853	3,631,573	5,423,693	-	-	-	-
Unlisted	-	-	-	-	-	-	-	-
	-	325,853	3,631,573	5,423,693	-	-	-	-
<b>Derivatives</b>								
Currency options	-	-	1,061	325,646	-	92,672	-	-
Foreign exchange forwards	-	-	17,255,031	-	-	-	-	-
	-	-	17,256,092	325,646	-	92,672	-	-
<b>Interest bearing securities</b>								
Notes/debt instruments secured	6,562,537	6,578,766	-	-	-	-	-	-
Notes/debt instruments unsecured	19,918,468	19,320,612	-	-	-	-	-	-
Deposits	-	-	-	-	-	-	-	-
	26,481,005	25,899,378	-	-	-	-	-	-
	26,481,005	26,225,231	126,013,436	103,836,929	-	5,759,878	98,210,713	35,028,299

Notes to the financial statements for the year ended 30 June 2010

**Note 7 - Loans**

	Balanced Trust ("AEBT")		Property Trust ("AEPT")		Balanced Trust Consolidated ("AEBTC")		Smaller Companies Trust ("AEST")	
	2010 \$	2009 \$	2010 \$	2009 \$	2010 \$	2009 \$	2010 \$	2009 \$
Secured	5,490,944	5,325,422	-	-	5,490,944	5,325,422	-	-
	5,490,944	5,325,422	-	-	5,490,944	5,325,422	-	-

**Note 8 - Investment properties**

	Balanced Trust ("AEBT")		Property Trust ("AEPT")		Balanced Trust Consolidated ("AEBTC")		Smaller Companies Trust ("AEST")	
Commercial	5,950,000	6,600,000	19,800,000	18,500,000	25,750,000	25,100,000	-	-
Total investment properties	5,950,000	6,600,000	19,800,000	18,500,000	25,750,000	25,100,000	-	-

**At Fair Value**

Opening balance at 1 July	6,600,000	6,955,000	18,500,000	-	25,100,000	6,955,000	-	-
Acquisitions	-	-	-	18,500,000	-	18,500,000	-	-
Disposals	-	(205,000)	-	-	-	(205,000)	-	-
Net gain (loss) from fair value adjustment	(650,000)	(150,000)	1,300,000	-	650,000	(150,000)	-	-
Closing balance at 30 June	5,950,000	6,600,000	19,800,000	18,500,000	25,750,000	25,100,000	-	-

Notes to the financial statements for the year ended 30 June 2010

**Note 7 - Loans**

	Income Trust ("AEIT")		Larger Companies Trust ("AELT")		World Trust ("AEWT")		International Equities Trust ("AEIET")	
	2010 \$	2009 \$	2010 \$	2009 \$	2010 \$	2009 \$	2010 \$	2009 \$
Secured	1,140,608	1,363,884	-	-	-	-	-	-
	<b>1,140,608</b>	<b>1,363,884</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

**Note 8 - Investment properties**

	Income Trust ("AEIT")		Larger Companies Trust ("AELT")		World Trust ("AEWT")		International Equities Trust ("AEIET")	
Commercial	-	-	-	-	-	-	-	-
Total investment properties	-	-	-	-	-	-	-	-
<b>At Fair Value</b>								
Opening balance at 1 July	-	-	-	-	-	-	-	-
Acquisitions	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-	-
Net gain (loss) from fair value adjustment	-	-	-	-	-	-	-	-
Closing balance at 30 June	-	-	-	-	-	-	-	-

**Note 8 - Investment properties - continued**

**(a) Amounts recognised in profit and loss for investment property**

	Balanced Trust ("AEBT")		Property Trust ("AEPT")		Balanced Trust Consolidated ("AEBTC")		Smaller Companies Trust ("AEST")	
	2010 \$	2009 \$	2010 \$	2009 \$	2010 \$	2009 \$	2010 \$	2009 \$
Rental income	629,089	610,058	1,473,776	14,189	2,102,865	624,247	-	-
Direct operating expenses from property that generate rental income	(104,821)	(94,109)	(806,479)	(18,253)	(911,300)	(112,362)	-	-
Direct operating expenses from property that did not generate rental income	-	-	-	-	-	-	-	-
	524,268	515,949	667,297	(4,064)	1,191,565	511,885	-	-

**(b) Valuation basis**

The basis of the valuation of investment properties is fair value being the amounts for which the properties could be exchanged between willing parties in an arm's length transaction, based on current prices in an active market for similar properties in the same location and condition and subject to similar leases. The fair value model is applied to all investment properties. Valuations are performed every 12 months by a registered independent valuer.

**(c) Leasing arrangements**

The investment properties are leased to tenants under long-term operating leases with rentals payable monthly. Minimum lease payments receivable on leases of investment properties are as follows:

Minimum lease payments under non-cancellable operating leases of investment properties not recognised in the financial statements are receivable as follows:

	Balanced Trust ("AEBT")		Property Trust ("AEPT")		Balanced Trust Consolidated ("AEBTC")		Smaller Companies Trust ("AEST")	
Within one year	352,709	638,428	1,880,178	1,507,410	2,232,887	2,145,838	-	-
Later than one year but not later than 5 years	-	324,929	3,437,571	5,699,673	3,437,571	6,024,602	-	-
Later than 5 years	-	-	555,133	368,203	555,133	368,203	-	-
	352,709	963,357	5,872,882	7,575,286	6,225,591	8,538,643	-	-

**Note 8 - Investment properties - continued****(a) Amounts recognised in profit and loss for investment property**

	Income Trust ("AEIT")		Larger Companies Trust ("AELT")		World Trust ("AEWT")		International Equities Trust ("AEIET")	
	2010	2009	2010	2009	2010	2009	2010	2009
	\$	\$	\$	\$	\$	\$	\$	\$
Rental income	-	-	-	-	-	-	-	-
Direct operating expenses from property that generate rental income	-	-	-	-	-	-	-	-
Direct operating expenses from property that did not generate rental income	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-

**(b) Valuation basis**

The basis of the valuation of investment properties is fair value being the amounts for which the properties could be exchanged between willing parties in an arm's length transaction, based on current prices in an active market for similar properties in the same location and condition and subject to similar leases. The fair value model is applied to all investment properties. Valuations are performed every 12 months by a registered independent valuer.

**(c) Leasing arrangements**

The investment properties are leased to tenants under long-term operating leases with rentals payable monthly. Minimum lease payments receivable on leases of investment properties are as follows:

Minimum lease payments under non-cancellable operating leases of investment properties not recognised in the financial statements are receivable as follows:

	Income Trust ("AEIT")		Larger Companies Trust ("AELT")		World Trust ("AEWT")		International Equities Trust ("AEIET")	
Within one year	-	-	-	-	-	-	-	-
Later than one year but not later than 5 years	-	-	-	-	-	-	-	-
Later than 5 years	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-

Notes to the financial statements for the year ended 30 June 2010

Note 9 - Other assets

	Balanced Trust ("AEBT")		Property Trust ("AEPT")		Balanced Trust Consolidated ("AEBTC")		Smaller Companies Trust ("AEST")	
	2010 \$	2009 \$	2010 \$	2009 \$	2010 \$	2009 \$	2010 \$	2009 \$
Pre-paid interest	-	-	145,085	-	145,085	-	-	-
Capitalised project costs	42,315	-	-	-	42,315	-	29,901	-
	<b>42,315</b>	-	<b>145,085</b>	-	<b>187,400</b>	-	<b>29,901</b>	-

Note 10 - Trade and other payables

	Balanced Trust ("AEBT")		Property Trust ("AEPT")		Balanced Trust Consolidated ("AEBTC")		Smaller Companies Trust ("AEST")	
Trade payables and sundry creditors	699,085	397,802	328,913	56,301	1,027,998	513,553	661,157	373,411
Accrued redemptions	180,644	1,778	-	-	180,644	1,778	65,793	82,101
Investment purchases	-	-	-	-	-	-	-	1,750,000
Foreign exchange forwards	-	-	-	-	-	-	-	-
	<b>879,729</b>	<b>399,580</b>	<b>328,913</b>	<b>56,301</b>	<b>1,208,642</b>	<b>515,331</b>	<b>726,950</b>	<b>2,205,512</b>

Notes to the financial statements for the year ended 30 June 2010

**Note 9 - Other assets**

	Income Trust ("AEIT")		Larger Companies Trust ("AELT")		World Trust ("AEWT")		International Equities Trust ("AEIET")	
	2010 \$	2009 \$	2010 \$	2009 \$	2010 \$	2009 \$	2010 \$	2009 \$
Pre-paid interest	-	-	-	-	-	-	-	-
Capitalised project costs	12,815	-	24,261	-	-	-	20,824	-
	<b>12,815</b>	-	<b>24,261</b>	-	-	-	<b>20,824</b>	-

**Note 10 - Trade and other payables**

	Income Trust ("AEIT")		Larger Companies Trust ("AELT")		World Trust ("AEWT")		International Equities Trust ("AEIET")	
	2010	2009	2010	2009	2010	2009	2010	2009
Trade payables and sundry creditors	137,817	47,159	370,236	218,273	9,205	10,119	283,464	59,450
Accrued redemptions	18,281	-	73,384	97,233	-	-	-	-
Investment purchases	-	-	-	-	-	-	862,958	-
Foreign exchange forwards	-	-	17,871,442	-	-	-	-	-
	<b>156,098</b>	47,159	<b>18,315,062</b>	315,506	<b>9,205</b>	10,119	<b>1,146,422</b>	59,450

Notes to the financial statements for the year ended 30 June 2010

**Note 11 - Borrowings**

The Property Trust has entered into a revolving credit facility with our corporate bankers (National Australia Bank). The credit is provided via a revolving 90 day bank bill, with a facility end date of 30 June 2014. This is secured against the property at 64 Allara St, Canberra. The current bill was entered into on 29 June 2010 and matures on 29 September 2010. The current yield rate is 5.00% and the effective rate, inclusive of fees & charges is 8.13%.

	Balanced Trust ("AEBT")		Property Trust ("AEPT")		Balanced Trust Consolidated ("AEBTC")		Smaller Companies Trust ("AEST")	
	2010 \$	2009 \$	2010 \$	2009 \$	2010 \$	2009 \$	2010 \$	2009 \$
Bank bill (secured)	-	-	7,400,000	7,400,000	7,400,000	7,400,000	-	-
	-	-	7,400,000	7,400,000	7,400,000	7,400,000	-	-

**Note 12 - Distribution payable**

	Balanced Trust ("AEBT")		Property Trust ("AEPT")		Balanced Trust Consolidated ("AEBTC")		Smaller Companies Trust ("AEST")	
Net amount available for distribution	7,416,678	6,770,631	519,278	-	7,416,678	6,770,631	3,506,218	865,319
Distributed								
half-year ended 31 December 2009	1,914,247	4,534,873	340,577	-	1,914,247	4,534,873	-	-
half-year ended 30 June 2010	5,502,431	2,235,758	178,701	-	5,502,431	2,235,758	3,506,218	865,319
	7,416,678	6,770,631	519,278	-	7,416,678	6,770,631	3,506,218	865,319

**Note 13 - Auditors' remuneration**

	Balanced Trust ("AEBT")		Property Trust ("AEPT")		Balanced Trust Consolidated ("AEBTC")		Smaller Companies Trust ("AEST")	
Amounts received or due and receivable by the Auditors of the Trust for:								
Auditing the financial report	36,000	32,300	2,200	-	38,200	44,200	26,600	23,600
Tax and other accounting advice	8,773	7,866	550	-	9,323	11,905	9,330	8,279
	44,773	40,166	2,750	-	47,523	56,105	35,930	31,879

Notes to the financial statements for the year ended 30 June 2010

**Note 11 - Borrowings**

	Income Trust ("AEIT")		Larger Companies Trust ("AELT")		World Trust ("AEWT")		International Equities Trust ("AEIET")	
	2010	2009	2010	2009	2010	2009	2010	2009
	\$	\$	\$	\$	\$	\$	\$	\$
Bank bill (secured)	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-

**Note 12 - Distribution payable**

	Income Trust ("AEIT")		Larger Companies Trust ("AELT")		World Trust ("AEWT")		International Equities Trust ("AEIET")	
Net amount available for distribution	932,238	1,295,450	683,481	-	-	-	-	-
Distributed								
half-year ended 31 December 2009	267,182	875,047	-	-	-	-	-	-
half-year ended 30 June 2010	665,056	420,403	683,481	-	-	-	-	-
	932,238	1,295,450	683,481	-	-	-	-	-

**Note 13 - Auditors' remuneration**

	Income Trust ("AEIT")		Larger Companies Trust ("AELT")		World Trust ("AEWT")		International Equities Trust ("AEIET")	
Amounts received or due and receivable by the Auditors of the Trust for:								
Auditing the financial report	11,400	10,000	16,600	14,900	4,100	4,500	13,400	11,900
Tax and other accounting advice	4,037	3,572	6,418	5,774	1,475	1,694	4,564	4,039
	15,437	13,572	23,018	20,674	5,575	6,194	17,964	15,939

Notes to the financial statements for the year ended 30 June 2010

Note 14 - Cash flow information

Reconciliation of net cash provided by operating activities with profit (loss) from operating activities

	Balanced Trust ("AEBT")		Property Trust ("AEPT")		Balanced Trust Consolidated ("AEBTC")		Smaller Companies Trust ("AEST")	
	2010 \$	2009 \$	2010 \$	2009 \$	2010 \$	2009 \$	2010 \$	2009 \$
Net operating profit (loss) for the year from ordinary activities	9,251,026	(11,941,562)	2,028,815	(1,404,307)	9,535,542	(13,140,474)	9,798,148	(3,044,268)
(Increase) Decrease in accrued income	(431,584)	1,265,982	(50,023)		(310,358)	1,257,445	137,885	454,459
Unrealised (increment) decrement on fluctuation in value of investments	(2,084,050)	5,486,307	(1,367,721)		(2,213,181)	1,335,655	(7,623,766)	5,366,648
Increase (Decrease) in accrued charges & creditors	299,989	(9,680)	272,612	56,301	572,601	(3,647)	257,853	(12,906)
(Increase) Decrease in debtors/prepayments	(627,623)	70,522	(183,630)	(5,915)	(811,253)	16,598	(121,276)	(335,108)
(Profit) Loss on sale of investments	(1,953,215)	13,225,884	-		(1,953,215)	17,091,966	(1,167,308)	(1,457,060)
Foreign exchange hedging costs	-	62,964	-		-	62,964	503,055	2,457,954
Project costs	(42,315)	-	-	-	(42,315)	-	(29,901)	-
Net cash provided by (used in) operating activities	4,412,228	8,160,417	700,053	(1,353,921)	4,777,821	6,620,507	1,754,690	3,429,719

Note 15 - Segment information

The schemes operate in the finance market (within the terms of the Australian Ethical Investment charter) mainly in Australia. During the 2010 financial year the schemes invested in international listed securities at market value as at 30 June 2010 (refer note 6) as follows:

	Balanced Trust ("AEBT")		Property Trust ("AEPT")		Balanced Trust Consolidated ("AEBTC")		Smaller Companies Trust ("AEST")	
International listed	-	-	-	-	-	35,028,299	-	33,076,994
Dividends earned by the schemes during the year from these investments.	-	46,815	-	-	-	843,959	189,949	837,771

Notes to the financial statements for the year ended 30 June 2010

**Note 14 - Cash flow information**

Reconciliation of net cash provided by operating activities with profit (loss) from operating activities

	Income Trust ("AEIT")		Larger Companies Trust ("AELT")		World Trust ("AEWT")		International Equities Trust ("AEIET")	
	2010	2009	2010	2009	2010	2009	2010	2009
	\$	\$	\$	\$	\$	\$	\$	\$
Net operating profit (loss) for the year from ordinary activities	1,465,055	915,329	5,153,043	(11,163,797)	27,769	(1,210,002)	(2,132,675)	(6,284,928)
(Increase) Decrease in accrued income	(104,142)	84,776	(441,345)	307,846	305	177	(70,142)	(8,537)
Unrealised (increment) decrement on fluctuation in value of investments	(303,352)	380,121	2,777,843	(6,104,136)	48,196	979,824	1,932,092	2,339,671
Increase (Decrease) in accrued charges & creditors	96,563	8,223	139,059	(31,957)	1,505	1,879	221,523	(50,268)
(Increase) Decrease in debtors/prepayments	(40,679)	(4,036)	22,366	68,616	16,499	(6,895)	(157,766)	(48,009)
(Profit) Loss on sale of investments	(229,465)	-	(6,931,135)	16,563,761	(140,394)	32,933	(1,536,899)	3,866,082
Foreign exchange hedging costs	-	-	358,723	1,838,360	71,331	306,800	-	-
Project costs	(12,815)	-	(24,261)	-	-	-	(20,824)	-
Net cash provided by (used in) operating activities	871,165	1,384,413	1,054,293	1,478,693	25,211	104,716	(1,764,691)	(185,989)

**Note 15 - Segment information**

The schemes operate in the finance market (within the terms of the Australian Ethical Investment charter) mainly in Australia. During the 2010 financial year the schemes invested in international listed securities at market value as at 30 June 2010 (refer note 6) as follows:

	Income Trust ("AEIT")		Larger Companies Trust ("AELT")		World Trust ("AEWT")		International Equities Trust ("AEIET")	
International listed	-	-	-	36,440,596	-	-	98,210,713	35,028,299
Dividends earned by the schemes during the year from these investments.	-	-	337,509	701,843	-	-	1,301,157	797,144

**Notes to the financial statements for the year ended 30 June 2010**

**Note 16 - Related party disclosures**

Australian Ethical Investment Limited (AEIL), as Responsible Entity of each scheme, provides investment services for the schemes in accordance with each scheme's constitution.

The Australian Ethical Balanced Trust (AEBT) holds units in the Australian Ethical Smaller Companies Trust (AEST), the Australian Ethical Property Trust (AEPT) and in the Australian Ethical International Equities Trust (AEIET) for whom Australian Ethical Investment Limited is also the Responsible Entity.

During the year the following amounts were paid to the Responsible Entity in accordance with each scheme's Constitution:

**Australian Ethical Investment Limited**

	<b>Balanced Trust ("AEBT")</b>		<b>Property Trust ("AEPT")</b>		<b>Balanced Trust Consolidated ("AEBTC")</b>		<b>Smaller Companies Trust ("AEST")</b>	
	<b>2010</b>	2009	<b>2010</b>	2009	<b>2010</b>	2009	<b>2010</b>	2009
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Management fees	3,652,625	3,610,398	138,982	-	3,791,607	4,098,797	3,938,935	3,368,972
Accounting fees	301,019	275,159	30,800	-	331,819	383,592	240,949	216,377
Reimbursable expenses	52,908	73,717	17	-	52,925	73,828	60,578	83,455
	<b>4,006,552</b>	3,959,274	<b>169,799</b>	-	<b>4,176,351</b>	4,556,217	<b>4,240,462</b>	3,668,804

The amounts due and payable at 30 June 2010 to the Responsible Entity, inclusive of GST but before input tax credits, in accordance with each scheme's Constitutions were:

	<b>Balanced Trust ("AEBT")</b>		<b>Property Trust ("AEPT")</b>		<b>Balanced Trust Consolidated ("AEBTC")</b>		<b>Smaller Companies Trust ("AEST")</b>	
	<b>2010</b>	2009	<b>2010</b>	2009	<b>2010</b>	2009	<b>2010</b>	2009
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Management fees, accounting fees and reimbursable expenses	<b>93,859</b>	353,038	<b>70,197</b>	-	<b>164,056</b>	408,805	<b>335,320</b>	350,432

Transactions between Australian Ethical Investment Ltd and the schemes during the financial year were:

Distribution payments to AEIL	2,695	6,873	-	-	2,695	6,873	-	-
AEIL sale of securities	100,000	-	-	-	100,000	-	-	-
Value of units held by AEIL	227,064	320,749	-	-	227,064	320,749	-	-
Distribution receivable by AEIL	5,339	3,298	-	-	5,339	3,298	-	-

Notes to the financial statements for the year ended 30 June 2010

Note 16 - Related party disclosures

Australian Ethical Investment Limited (AEIL), as Responsible Entity of each scheme, provides investment services for the schemes in accordance with each scheme's constitution.

The Australian Ethical Balanced Trust (AEBT) holds units in the Australian Ethical Smaller Companies Trust (AEST), the Australian Ethical Property Trust (AEPT) and in the Australian Ethical International Equities Trust (AEIET) for whom Australian Ethical Investment Limited is also the Responsible Entity.

During the year the following amounts were paid to the Responsible Entity in accordance with each scheme's Constitution:

Australian Ethical Investment Limited

	Income Trust ("AEIT")		Larger Companies Trust ("AELT")		World Trust ("AEWT")		International Equities Trust ("AEIET")	
	2010 \$	2009 \$	2010 \$	2009 \$	2010 \$	2009 \$	2010 \$	2009 \$
Management fees	335,217	324,777	2,013,747	2,117,846	14,473	36,267	1,043,162	488,399
Accounting fees	102,937	91,958	157,461	140,951	13,365	41,821	118,843	108,433
Reimbursable expenses	5,045	6,876	40,288	57,792	2,487	7,498	1,826	111
	443,199	423,611	2,211,496	2,316,589	30,325	85,586	1,163,831	596,943

The amounts due and payable at 30 June 2010 to the Responsible Entity, inclusive of GST but before input tax credits, in accordance with each scheme's Constitutions were:

	Income Trust ("AEIT")		Larger Companies Trust ("AELT")		World Trust ("AEWT")		International Equities Trust ("AEIET")	
Management fees, accounting fees and reimbursable expenses	68,634	39,571	165,137	203,573	6,498	7,767	172,279	55,767

Transactions between Australian Ethical Investment Ltd and the schemes during the financial year were:

Distribution payments to AEIL	-	-	-	-	-	-	-	-
AEIL sale of securities	-	-	-	-	-	-	-	-
Value of units held by AEIL	-	-	-	-	-	-	-	-
Distribution receivable by AEIL	-	-	-	-	-	-	-	-

**Note 16 - Related party disclosures - continued**

**Australian Ethical Income Trust / Australian Ethical Smaller Companies Trust / Australian Ethical International Equities Trust / Australian Ethical Property Trust**

Transactions between the schemes during the financial year were:

	Balanced Trust ("AEBT")		Property Trust ("AEPT")		Balanced Trust Consolidated ("AEBTC")		Smaller Companies Trust ("AEST")	
	2010 \$	2009 \$	2010 \$	2009 \$	2010 \$	2009 \$	2010 \$	2009 \$
Distributions from AEIT	4,448	125,787	-	-	-	-	-	-
Distributions from AEPT	334,460	-	-	-	-	-	-	-
Units sold in AEIT	496,959	5,897,945	-	-	-	-	-	-
Units sold in AEIET	-	-	-	-	-	-	-	-
Units purchased in AEST	3,750,000	3,000,000	-	-	-	-	-	-
Units purchased in AEIT	500,000	-	-	-	-	-	-	-
Units purchased in AEIET	2,900,000	8,233,836	-	-	-	-	34,881,848	-
Units purchased in AEPT	2,083,200	12,550,000	-	-	-	-	-	-
Value of units held in AEST	13,742,805	9,965,274	-	-	-	-	-	-
Value of units held in AEIET	35,350,052	32,191,205	-	-	-	-	33,644,765	-
Value of units held in AEPT	14,467,483	11,145,693	-	-	-	-	-	-
Distribution receivable from AEST	230,419	45,284	-	-	-	-	-	-
Distribution receivable from AEPT	171,249	-	-	-	-	-	-	-

**Note 16 - Related party disclosures - *continued***

**Australian Ethical Income Trust / Australian Ethical Smaller Companies Trust / Australian Ethical International Equities Trust / Australian Ethical Property Trust**

Transactions between the schemes during the financial year were:

	Income Trust ("AEIT")		Larger Companies Trust ("AELT")		World Trust ("AEWT")		International Equities Trust ("AEIET")	
	2010	2009	2010	2009	2010	2009	2010	2009
	\$	\$	\$	\$	\$	\$	\$	\$
Distributions from AEIT	-	-	-	-	-	-	-	-
Distributions from AEPT	-	-	-	-	-	-	-	-
Units sold in AEIT	-	-	-	-	-	-	-	-
Units sold in AEIET	-	-	2,400,000	-	-	300,000	-	-
Units purchased in AEST	-	-	-	-	-	-	-	-
Units purchased in AEIT	-	-	-	-	-	-	-	-
Units purchased in AEIET	-	-	38,572,371	-	-	910,000	-	-
Units purchased in AEPT	-	-	-	-	-	-	-	-
Value of units held in AEST	-	-	-	-	-	-	-	-
Value of units held in AEIET	-	-	34,766,644	-	-	5,666,379	-	-
Value of units held in AEPT	-	-	-	-	-	-	-	-
Distribution receivable from AEST	-	-	-	-	-	-	-	-
Distribution receivable from AEPT	-	-	-	-	-	-	-	-

## Notes to the financial statements for the year ended 30 June 2010

### Note 17 - Financial instruments

#### a) Financial risk management policies

Each Investment Trusts' financial instruments consist of: cash and cash equivalents; trade and other receivables; financial assets; trade and other payables; and distribution payable. In addition to these, AEBT's financial instruments include loans and investment properties, AEIT's financial instruments include loans and AEPT financial instruments include investment properties and borrowings.

The responsible entity has an Investment Committee and an audit Compliance and Risk Committee. These are board committees which are responsible under their Charters for the oversight of various policies and procedures to manage financial risks.

#### i) Treasury risk management

The activities of the Investment Trusts expose them to a variety of financial risks: liquidity risk, credit risk and market risk (which includes interest rate risk and foreign currency risk, and represents the risk that a financial instrument's value will fluctuate as a result of changes in the market).

The Investment Committee's Charter requires it to oversight the processes which govern the investment of monies of the Investment Trusts for which Australian Ethical Investment Limited is the responsible entity. The Investment Committee bears primary responsibility for the oversight of processes for the management of the above financial risks. It meets on a regular basis to analyse financial risk exposure and to evaluate management strategies in the context of the most recent economic conditions and forecasts.

The Investment Committee monitors and is responsible for maintaining the primary risk management tool for financial risks – a documented set of Trust Investment Parameters. The activities of the Investment Committee aim to minimise the potential adverse affects on Investment Trust performance of the unpredictability of financial markets, while maintaining the individual qualities of each Investment Trust as defined in the Trust Investment Parameters.

#### ii) Financial exposures and management

The most significant risks the Investment Trusts are exposed to through their financial instruments are interest rate risk, foreign currency and credit risk. The Investment Trusts also have an exposure to liquidity risk.

#### Interest rate risk

The exposure the Investment Trusts have to interest rate changes is investing in interest rate sensitive financial assets such as loans, notes and mortgage backed securities, with other parties. The returns from these investments are exposed to variation in prevailing interest rates and are dependant upon the prevailing interest rate offered and other market conditions. The Property Trust has entered into a facility with our corporate bankers (National Australia Bank), to provide a revolving 3 month Bank Bill, on competitive floating rates. Interest rate risk represents the risk that the Investment Trusts' financial performance will be adversely affected by fluctuations in interest rates.

#### Foreign currency risk

Foreign currency risk arises when recognised assets and liabilities and future commercial transactions are denominated in a currency that is not the entity's functional currency. The Australian Ethical Internation Equities Trust invests internationally and is exposed to foreign currency risk arising from exposure to a variety of different currencies. The Balance, Smaller & Larger Companies Trusts' all gain foreign investment exposure indirectly via their respective crossholdings in the AEIET.

The responsible entity uses derivative financial instruments in both the Smaller Companies and Larger Companies Trusts, such as foreign currency options and forward contracts, to hedge the foreign currency risk exposures. The foreign currency exposure of the Investment Trusts are reviewed regularly and updated as required. The use of derivative financial instruments is subject to policies and parameters set out in the responsible entities' Derivatives Risk Statement and Trust Investment Parameters. The Investment Committee is responsible for monitoring adherence to the Derivatives Risk Statement and the Trust Investment Parameters.

**Notes to the financial statements for the year ended 30 June 2010**

**Note 17 - Financial instruments - Continued**

**Liquidity risk**

Liquidity risk is the risk that the Investment Trusts will encounter difficulty in realising assets or otherwise raising funds to meet commitments associated with financial instruments. To control liquidity risk, the Investment Trusts invest a significant portion of their funds in financial instruments which under normal market conditions are readily convertible into cash. The Investment Trusts operate within established limits to ensure there is no concentration of risk. The responsible entity maintains liquidity guidelines. The Investment Committee and the Audit, Compliance and Risk Committee monitor liquidity and the implementation of the guidelines. All payables of the Investment Trusts are classed as normal operating obligations and are to be paid within six months of balance date.

**Credit risk**

Credit risk represents the risk that a counterparty will fail to perform contractual obligations under a contract. Each Trusts' maximum credit risk exposure at balance date in relation to each class of recognised financial asset, is the carrying amount of those assets as indicated in the statement of financial position. The Trust Investment Parameters established by the responsible entity ensures credit risk is managed within accepted pre-determined guidelines. The Investment Committee meets regularly to review and if necessary, recommend modifications to the Trust Investment Parameters.

The Investment Trusts do not have any material credit risk exposure to a single receivable or group receivables under financial instruments entered into by the Trusts.

## Note 17 - Financial instruments - continued

## b) Financial instrument composition and maturity analysis

The table below reflects the undiscounted contractual settlement terms for financial instruments of a fixed period of maturity, as well as management's expectations of the settlement period for all other financial instruments. Interest rate risk is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the weighted average interest rates on classes of financial assets and financial liabilities. Each Investment Trusts' exposure to that interest rate risk is as follows:

	AEBT		Fixed interest rate maturing					
	Weighted average interest rate		Floating interest rate		Fixed interest rate within 1 year		Fixed interest rate 1 to 5 years	
	2010 %	2009 %	2010 \$	2009 \$	2010 \$	2009 \$	2010 \$	2009 \$
Cash and cash equivalents	3	4	10,590,101	7,865,268	-	-	-	-
Trade and other receivables			-	-	-	-	-	-
Financial assets	6	4	70,426,628	70,540,887	14,211,824	10,079,792	-	-
Loans	8	8	400,000	400,000	-	-	3,426,402	3,338,999
Investment properties			-	-	-	-	-	-
<b>Total financial assets</b>			<b>81,416,729</b>	<b>78,806,155</b>	<b>14,211,824</b>	<b>10,079,792</b>	<b>3,426,402</b>	<b>3,338,999</b>
Trade and other payables			-	-	-	-	-	-
Distribution payable			-	-	-	-	-	-
Borrowings			-	-	-	-	-	-
<b>Total financial liabilities</b>			-	-	-	-	-	-
			Fixed interest rate over 5 years		Non-interest bearing		Total	
Cash and cash equivalents			-	-	-	-	10,590,101	7,865,268
Trade and other receivables			-	-	2,710,658	1,613,312	2,710,658	1,613,312
Financial assets			-	-	130,466,163	117,727,098	215,104,615	198,347,777
Loans			-	-	1,664,542	1,586,423	5,490,944	5,325,422
Investment properties			-	-	5,950,000	6,600,000	5,950,000	6,600,000
<b>Total financial assets</b>			-	-	<b>140,791,363</b>	<b>127,526,833</b>	<b>239,846,318</b>	<b>219,751,779</b>
Trade and other payables			-	-	879,729	399,580	879,729	399,580
Distribution payable			-	-	5,502,431	2,235,758	5,502,431	2,235,758
Borrowings			-	-	-	-	-	-
<b>Total financial liabilities</b>			-	-	<b>6,382,160</b>	<b>2,635,338</b>	<b>6,382,160</b>	<b>2,635,338</b>

## Note 17 - Financial instruments - continued

	AEPT		Fixed interest rate maturing					
	Weighted average interest rate		Floating interest rate		Fixed interest rate within 1 year		Fixed interest rate 1 to 5 years	
	2010 %	2009 %	2010 \$	2009 \$	2010 \$	2009 \$	2010 \$	2009 \$
Cash and cash equivalents	4	4	589,493	96,079	-	-	-	-
Trade and other receivables			-	-	-	-	-	-
Financial assets	6	-	-	-	600,000	-	-	-
Loans	-	-	-	-	-	-	-	-
Investment properties			-	-	-	-	-	-
<b>Total financial assets</b>			<b>589,493</b>	<b>96,079</b>	<b>600,000</b>	<b>-</b>	<b>-</b>	<b>-</b>
Trade and other payables			-	-	-	-	-	-
Distribution payable			-	-	-	-	-	-
Borrowings	8	6	-	-	7,400,000	7,400,000	-	-
<b>Total financial liabilities</b>			<b>-</b>	<b>-</b>	<b>7,400,000</b>	<b>7,400,000</b>	<b>-</b>	<b>-</b>
			Fixed interest rate over 5 years		Non-interest bearing		Total	
Cash and cash equivalents			-	-	-	-	589,493	96,079
Trade and other receivables			-	-	94,483	5,915	94,483	5,915
Financial assets			-	-	2,083,200	-	2,683,200	-
Loans			-	-	-	-	-	-
Investment properties			-	-	19,800,000	18,500,000	19,800,000	18,500,000
<b>Total financial assets</b>			<b>-</b>	<b>-</b>	<b>21,977,683</b>	<b>18,505,915</b>	<b>23,167,176</b>	<b>18,601,994</b>
Trade and other payables			-	-	328,913	56,301	328,913	56,301
Distribution payable			-	-	178,701	-	178,701	-
Borrowings			-	-	-	-	7,400,000	7,400,000
<b>Total financial liabilities</b>			<b>-</b>	<b>-</b>	<b>507,614</b>	<b>56,301</b>	<b>7,907,614</b>	<b>7,456,301</b>

	AEST		Fixed interest rate maturing					
	Weighted average interest rate		Floating interest rate		Fixed interest rate within 1 year		Fixed interest rate 1 to 5 years	
	2010 %	2009 %	2010 \$	2009 \$	2010 \$	2009 \$	2010 \$	2009 \$
Cash and cash equivalents	3	4	7,092,517	15,057,959	-	-	-	-
Trade and other receivables			-	-	-	-	-	-
Financial assets			-	-	-	-	-	-
Loans			-	-	-	-	-	-
Investment properties			-	-	-	-	-	-
<b>Total financial assets</b>			<b>7,092,517</b>	<b>15,057,959</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Trade and other payables			-	-	-	-	-	-
Distribution payable			-	-	-	-	-	-
Borrowings			-	-	-	-	-	-
<b>Total financial liabilities</b>			<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
			Fixed interest rate over 5 years		Non-interest bearing		Total	
Cash and cash equivalents			-	-	-	-	7,092,517	15,057,959
Trade and other receivables			-	-	1,666,357	1,690,239	1,666,357	1,690,239
Financial assets			-	-	204,467,431	175,045,075	204,467,431	175,045,075
Loans			-	-	-	-	-	-
Investment properties			-	-	-	-	-	-
<b>Total financial assets</b>			<b>-</b>	<b>-</b>	<b>206,133,788</b>	<b>176,735,314</b>	<b>213,226,305</b>	<b>191,793,273</b>
Trade and other payables			-	-	726,950	2,205,512	726,950	2,205,512
Distribution payable			-	-	3,506,218	865,319	3,506,218	865,319
Borrowings			-	-	-	-	-	-
<b>Total financial liabilities</b>			<b>-</b>	<b>-</b>	<b>4,233,168</b>	<b>3,070,831</b>	<b>4,233,168</b>	<b>3,070,831</b>

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**Note 17 - Financial instruments - continued**[illegible]

## Note 17 - Financial instruments - continued

	AEWT		Fixed interest rate maturing					
	Weighted average interest rate		Floating interest rate		Fixed interest rate within 1 year		Fixed interest rate 1 to 5 years	
	2010 %	2009 %	2010 \$	2009 \$	2010 \$	2009 \$	2010 \$	2009 \$
Cash and cash equivalents	3	4	20,669	189,573	-	-	-	-
Trade and other receivables			-	-	-	-	-	-
Financial assets			-	-	-	-	-	-
Loans			-	-	-	-	-	-
<b>Total financial assets</b>			<b>20,669</b>	<b>189,573</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Trade and other payables			-	-	-	-	-	-
Distribution payable			-	-	-	-	-	-
<b>Total financial liabilities</b>			<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
			Fixed interest rate over 5 years		Non-interest bearing		Total	
Cash and cash equivalents			-	-	-	-	20,669	189,573
Trade and other receivables			-	-	333	18,096	333	18,096
Financial assets			-	-	-	5,759,878	-	5,759,878
Loans			-	-	-	-	-	-
<b>Total financial assets</b>			<b>-</b>	<b>-</b>	<b>333</b>	<b>5,777,974</b>	<b>21,002</b>	<b>5,967,547</b>
Trade and other payables			-	-	9,205	10,119	9,205	10,119
Distribution payable			-	-	-	-	-	-
<b>Total financial liabilities</b>			<b>-</b>	<b>-</b>	<b>9,205</b>	<b>10,119</b>	<b>9,205</b>	<b>10,119</b>

## Note 17 - Financial instruments - continued

	AEIET		Fixed interest rate maturing					
	Weighted average interest rate		Floating interest rate		Fixed interest rate within 1 year		Fixed interest rate 1 to 5 years	
	2010 %	2009 %	2010 \$	2009 \$	2010 \$	2009 \$	2010 \$	2009 \$
Cash and cash equivalents	3	4	11,543,470	2,583,246	-	-	-	-
Trade and other receivables			-	-	-	-	-	-
Financial assets			-	-	-	-	-	-
Loans			-	-	-	-	-	-
<b>Total financial assets</b>			<b>11,543,470</b>	<b>2,583,246</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Trade and other payables			-	-	-	-	-	-
Distribution payable			-	-	-	-	-	-
<b>Total financial liabilities</b>			<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
			Fixed interest rate over 5 years		Non-interest bearing		Total	
Cash and cash equivalents			-	-	-	-	11,543,470	2,583,246
Trade and other receivables			-	-	1,201,013	113,996	1,201,013	113,996
Financial assets			-	-	98,210,713	35,028,299	98,210,713	35,028,299
Loans			-	-	-	-	-	-
<b>Total financial assets</b>			<b>-</b>	<b>-</b>	<b>99,411,726</b>	<b>35,142,295</b>	<b>110,955,196</b>	<b>37,725,541</b>
Trade and other payables			-	-	1,146,422	59,450	1,146,422	59,450
Distribution payable			-	-	-	-	-	-
<b>Total financial liabilities</b>			<b>-</b>	<b>-</b>	<b>1,146,422</b>	<b>59,450</b>	<b>1,146,422</b>	<b>59,450</b>

Notes to the financial statements for the year ended 30 June 2010

Note 17 - Financial instruments - continued

c) Net fair values

All financial assets are marked to market and carried at fair value as determined by an independent source where available. The net fair values of listed investments have been valued at the quoted market bid price at balance date. For other liabilities where no independent pricing source exists, the net fair value approximates their carrying value. Financial assets are valued in accordance with the Compliance Plan to ensure carrying values are recorded at fair value. The Compliance Plan is overseen by the Audit, Compliance and Risk Committee. The Audit, Compliance and Risk Committee meets on a regular basis to ensure adherence to the Compliance Plan and that the correct basis

Net fair values 2010							
Balanced Trust ("AEBT")		Property Trust ("AEPT")		Balanced Trust Consolidated ("AEBTC")		Smaller Companies Trust ("AEST")	
Carrying amount	Net fair value	Carrying amount	Net fair value	Carrying amount	Net fair value	Carrying amount	Net fair value
\$	\$	\$	\$	\$	\$	\$	\$
<b>Financial assets</b>							
Financial assets at fair value through profit or loss	215,104,615	215,104,615	2,683,200	2,683,200	203,326,449	203,326,449	204,467,431
Investment Properties	5,950,000	5,950,000	19,800,000	19,800,000	25,750,000	25,750,000	-
Loans	5,490,944	5,490,944	-	-	5,490,944	5,490,944	-
Trade and other receivables	2,710,658	2,710,658	94,483	94,483	2,633,892	2,633,892	1,666,357
	<b>229,256,217</b>	<b>229,256,217</b>	<b>22,577,683</b>	<b>22,577,683</b>	<b>237,201,285</b>	<b>237,201,285</b>	<b>206,133,788</b>
<b>Financial liabilities</b>							
Trade and other payables	879,729	879,729	328,913	328,913	1,208,642	1,208,642	726,950
Borrowings	-	-	7,400,000	7,400,000	7,400,000	7,400,000	-
	<b>879,729</b>	<b>879,729</b>	<b>7,728,913</b>	<b>7,728,913</b>	<b>8,608,642</b>	<b>8,608,642</b>	<b>726,950</b>

Net fair values 2009							
Balanced Trust ("AEBT")		Property Trust ("AEPT")		Balanced Trust Consolidated ("AEBTC")		Smaller Companies Trust ("AEST")	
Carrying amount	Net fair value	Carrying amount	Net fair value	Carrying amount	Net fair value	Carrying amount	Net fair value
\$	\$	\$	\$	\$	\$	\$	\$
<b>Financial assets</b>							
Financial assets at fair value through profit or loss	198,347,777	198,347,777	-	-	190,034,704	190,034,704	175,045,075
Investment Properties	6,600,000	6,600,000	18,500,000	18,500,000	25,100,000	25,100,000	-
Loans	5,325,422	5,325,422	-	-	5,325,422	5,325,422	-
Trade and other receivables	1,613,312	1,613,312	5,915	5,915	1,733,223	1,733,223	1,690,239
	<b>211,886,511</b>	<b>211,886,511</b>	<b>18,505,915</b>	<b>18,505,915</b>	<b>222,193,349</b>	<b>222,193,349</b>	<b>176,735,314</b>
<b>Financial liabilities</b>							
Trade and other payables	399,580	399,580	56,301	56,301	515,331	515,331	2,205,512
Borrowings	-	-	7,400,000	7,400,000	7,400,000	7,400,000	-
	<b>399,580</b>	<b>399,580</b>	<b>7,456,301</b>	<b>7,456,301</b>	<b>7,915,331</b>	<b>7,915,331</b>	<b>2,205,512</b>

Notes to the financial statements for the year ended 30 June 2010

Note 17 - Financial instruments - continued

c) Net fair values

All financial assets are marked to market and carried at fair value as determined by an independent source where available. The net fair values of listed investments have been valued at the quoted market bid price at balance date. For other liabilities where no independent pricing source exists, the net fair value approximates their carrying value. Financial assets are valued in accordance with the Compliance Plan to ensure carrying values are recorded at fair value. The Compliance Plan is overseen by the Audit, Compliance and Risk Committee. The Audit, Compliance and Risk Committee meets on a regular basis to ensure adherence to the Compliance Plan and that the correct basis

Net fair values 2010								
	Income Trust ("AEIT")		Larger Companies Trust ("AELT")		World Trust ("AEWT")		International Equities Trust ("AEIET")	
	Carrying amount	Net fair value	Carrying amount	Net fair value	Carrying amount	Net fair value	Carrying amount	Net fair value
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Financial assets</b>								
Financial assets at fair value through profit or loss	26,481,005	26,481,005	126,013,436	126,013,436	-	-	98,206,864	98,206,864
Investment Properties	-	-	-	-	-	-	-	-
Loans	1,140,608	1,140,608	-	-	-	-	-	-
Trade and other receivables	342,966	342,966	1,250,333	1,250,333	333	333	1,204,862	1,204,862
	27,964,579	27,964,579	127,263,769	127,263,769	333	333	99,411,726	99,411,726
<b>Financial liabilities</b>								
Trade and other payables	156,098	156,098	18,315,062	18,315,062	9,205	9,205	1,146,422	1,146,422
Borrowings	-	-	-	-	-	-	-	-
	156,098	156,098	18,315,062	18,315,062	9,205	9,205	1,146,422	1,146,422

Net fair values 2009								
	Income Trust ("AEIT")		Larger Companies Trust ("AELT")		World Trust ("AEWT")		International Equities Trust ("AEIET")	
	Carrying amount	Net fair value	Carrying amount	Net fair value	Carrying amount	Net fair value	Carrying amount	Net fair value
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Financial assets</b>								
Financial assets at fair value through profit or loss	26,225,231	26,225,231	103,836,929	103,836,929	5,759,878	5,759,878	35,028,299	35,028,299
Investment Properties	-	-	-	-	-	-	-	-
Loans	1,363,884	1,363,884	-	-	-	-	-	-
Trade and other receivables	197,116	197,116	881,099	881,099	18,096	18,096	113,996	113,996
	27,786,231	27,786,231	104,718,028	104,718,028	5,777,974	5,777,974	35,142,295	35,142,295
<b>Financial liabilities</b>								
Trade and other payables	47,159	47,159	315,506	315,506	10,119	10,119	59,450	59,450
Borrowings	-	-	-	-	-	-	-	-
	47,159	47,159	315,506	315,506	10,119	10,119	59,450	59,450

Notes to the financial statements for the year ended 30 June 2010

Note 17 - Financial instruments - continued

d) Sensitivity analysis - foreign currency risk

In assessing foreign currency (FX) risk, management has considered the foreign currencies to which it is exposed and assumed a plus/minus 5% movement in the AUD against the underlying currencies.

Management has determined a plus/minus 5% movement in these currencies to be an appropriate sensitivity following analysis of foreign exchange volatility. This sensitivity analysis is conducted at balance date and details the effects on the financial instruments held by the Investment Trusts on balance date. The analysis is based on movements in foreign currency from the spot rates prevailing at balance date.

FX sensitivity analysis Change in profit								
Currency	FX Exposure	Balanced Trust		Property Trust		Balanced Trust Consolidated		Smaller Companies Trust
		("AEBT")		("AEPT")		("AEBTC")		("AEST")
		2010 \$	2009 \$	2010 \$	2009 \$	2010 \$	2009 \$	2010 \$
+5% AUD v's	CHF	-	(34,939)	-	-	-	(34,939)	-
-5% AUD v's		-	34,939	-	-	-	34,939	-
+5% AUD v's	DKK	(20,723)	(52,273)	-	-	(20,723)	(52,273)	(18,558)
-5% AUD v's		20,723	52,273	-	-	20,723	52,273	18,558
+5% AUD v's	EUR	(472,793)	(356,686)	-	-	(472,793)	(356,686)	(423,998)
-5% AUD v's		472,793	356,686	-	-	472,793	356,686	423,998
+5% AUD v's	GBP	(80,989)	(110,936)	-	-	(80,989)	(110,936)	(72,542)
-5% AUD v's		80,989	110,936	-	-	80,989	110,936	72,542
+5% AUD v's	HKD	(97,579)	(78,681)	-	-	(97,579)	(78,681)	(87,387)
-5% AUD v's		97,579	78,681	-	-	97,579	78,681	87,387
+5% AUD v's	JPY	(212,921)	(163,003)	-	-	(212,921)	(163,003)	(190,856)
-5% AUD v's		212,921	163,003	-	-	212,921	163,003	190,856
+5% AUD v's	NOK	(24,929)	(46,642)	-	-	(24,929)	(46,642)	(22,325)
-5% AUD v's		24,929	46,642	-	-	24,929	46,642	22,325
+5% AUD v's	NZD	(62,737)	(98,759)	-	-	(62,737)	(98,759)	(56,206)
-5% AUD v's		62,737	98,759	-	-	62,737	98,759	56,206
+5% AUD v's	SEK	-	(22,177)	-	-	-	(22,177)	-
-5% AUD v's		-	22,177	-	-	-	22,177	-
+5% AUD v's	SGD	(38,151)	(73,820)	-	-	(38,151)	(73,820)	(34,166)
-5% AUD v's		38,151	73,820	-	-	38,151	73,820	34,166
+5% AUD v's	USD	(668,699)	(537,808)	-	-	(668,699)	(537,808)	(599,724)
-5% AUD v's		668,699	537,808	-	-	668,699	537,808	599,724
+5% AUD v's	Total change in profit	(1,679,521)	(1,575,724)	-	-	(1,679,521)	(1,575,724)	(1,505,762)
-5% AUD v's	Total change in profit	1,679,521	1,575,724	-	-	1,679,521	1,575,724	1,505,762

Notes to the financial statements for the year ended 30 June 2010

Note 17 - Financial instruments - continued

d) Sensitivity analysis - foreign currency risk

In assessing foreign currency (FX) risk, management has considered the foreign currencies to which it is exposed and assumed a plus/minus 5% movement in the AUD against the underlying currencies.

Management has determined a plus/minus 5% movement in these currencies to be an appropriate sensitivity following analysis of foreign exchange volatility. This sensitivity analysis is conducted at balance date and details the effects on the financial instruments held by the Investment Trusts on balance date. The analysis is based on movements in foreign currency from the spot rates prevailing at balance date.

FX sensitivity analysis Change in profit									
Currency	FX Exposure	Income Trust		Larger Companies Trust		World Trust		International Equities Trust	
		("AEIT")		("AELT")		("AEWT")		("AEIET")	
		2010 \$	2009 \$	2010 \$	2009 \$	2010 \$	2009 \$	2010 \$	2009 \$
+5% AUD v's	CHF	-	-	-	-	-	(6,151)	-	(41,090)
-5% AUD v's		-	-	-	-	-	6,151	-	41,090
+5% AUD v's	DKK	-	-	(19,182)	(112,765)	-	(7,561)	(60,588)	(50,508)
-5% AUD v's		-	-	19,182	112,765	-	7,561	60,588	50,508
+5% AUD v's	EUR	-	-	(437,672)	(325,717)	-	(25,510)	(1,382,340)	(389,470)
-5% AUD v's		-	-	437,672	351,321	-	58,304	1,382,340	389,470
+5% AUD v's	GBP	-	-	(74,969)	(92,170)	-	(13,391)	(236,793)	(123,788)
-5% AUD v's		-	-	74,969	114,179	-	16,547	236,793	123,788
+5% AUD v's	HKD	-	-	(90,325)	(109,245)	-	(13,852)	(285,297)	(92,533)
-5% AUD v's		-	-	90,325	109,245	-	13,852	285,297	92,533
+5% AUD v's	JPY	-	-	(197,101)	(166,938)	-	(20,068)	(622,534)	(178,933)
-5% AUD v's		-	-	197,101	187,826	-	26,786	622,534	178,933
+5% AUD v's	NOK	-	-	(23,076)	(51,231)	-	(7,036)	(72,886)	(46,998)
-5% AUD v's		-	-	23,076	51,231	-	7,036	72,886	46,998
+5% AUD v's	NZD	-	-	(58,073)	(21,889)	-	(15,019)	(183,428)	(116,147)
-5% AUD v's		-	-	58,073	27,400	-	17,387	183,428	116,147
+5% AUD v's	SEK	-	-	-	-	-	(3,904)	-	(26,081)
-5% AUD v's		-	-	-	-	-	3,904	-	26,081
+5% AUD v's	SGD	-	-	(35,315)	(81,640)	-	(12,996)	(111,544)	(86,817)
-5% AUD v's		-	-	35,315	81,640	-	12,996	111,544	86,817
+5% AUD v's	USD	-	-	(619,015)	(656,728)	-	(22,086)	(1,955,124)	(599,052)
-5% AUD v's		-	-	619,015	770,673	-	61,855	1,955,124	599,052
+5% AUD v's	Total change in profit	-	-	(1,554,728)	(1,618,323)	-	(147,574)	(4,910,534)	(1,751,415)
-5% AUD v's	Total change in profit	-	-	1,554,728	1,806,280	-	232,380	4,910,534	1,751,415

## Note 17 - Financial instruments - continued

FX sensitivity analysis									
Change in net assets attributable to unitholders									
Currency	FX Exposure	Balanced Trust		Property Trust		Balanced Trust Consolidated		Smaller Companies Trust	
		("AEBT")		("AEPT")		("AEBTC")		("AEST")	
		2010	2009	2010	2009	2010	2009	2010	2009
		\$	\$	\$	\$	\$	\$	\$	\$
+5% AUD v's	CHF	-	(34,939)	-	-	-	(34,939)	-	-
-5% AUD v's		-	34,939	-	-	-	34,939	-	-
+5% AUD v's	DKK	(20,723)	(52,273)	-	-	(20,723)	(52,273)	(18,558)	(178,335)
-5% AUD v's		20,723	52,273	-	-	20,723	52,273	18,558	178,335
+5% AUD v's	EUR	(472,793)	(356,686)	-	-	(472,793)	(356,686)	(423,998)	(158,146)
-5% AUD v's		472,793	356,686	-	-	472,793	356,686	423,998	487,955
+5% AUD v's	GBP	(80,989)	(110,936)	-	-	(80,989)	(110,936)	(72,542)	(26,349)
-5% AUD v's		80,989	110,936	-	-	80,989	110,936	72,542	76,746
+5% AUD v's	HKD	(97,579)	(78,681)	-	-	(97,579)	(78,681)	(87,387)	-
-5% AUD v's		97,579	78,681	-	-	97,579	78,681	87,387	-
+5% AUD v's	JPY	(212,921)	(163,003)	-	-	(212,921)	(163,003)	(190,856)	(65,695)
-5% AUD v's		212,921	163,003	-	-	212,921	163,003	190,856	207,581
+5% AUD v's	NOK	(24,929)	(46,642)	-	-	(24,929)	(46,642)	(22,325)	(127,716)
-5% AUD v's		24,929	46,642	-	-	24,929	46,642	22,325	127,716
+5% AUD v's	NZD	(62,737)	(98,759)	-	-	(62,737)	(98,759)	(56,206)	-
-5% AUD v's		62,737	98,759	-	-	62,737	98,759	56,206	-
+5% AUD v's	SEK	-	(22,177)	-	-	-	(22,177)	-	-
-5% AUD v's		-	22,177	-	-	-	22,177	-	-
+5% AUD v's	SGD	(38,151)	(73,820)	-	-	(38,151)	(73,820)	(34,166)	-
-5% AUD v's		38,151	73,820	-	-	38,151	73,820	34,166	-
+5% AUD v's	USD	(668,699)	(537,808)	-	-	(668,699)	(537,808)	(599,724)	(313,247)
-5% AUD v's		668,699	537,808	-	-	668,699	537,808	599,724	508,826
+5% AUD v's	Total change in equity	(1,679,521)	(1,575,724)	-	-	(1,679,521)	(1,575,724)	(1,505,762)	(869,488)
-5% AUD v's	Total change in equity	1,679,521	1,575,724	-	-	1,679,521	1,575,724	1,505,762	1,587,159

## Note 17 - Financial instruments - continued

FX sensitivity analysis								
Change in net assets attributable to unitholders								
Currency	FX Exposure	Income Trust ("AEIT")	Larger Companies Trust ("AELT")	World Trust ("AEWT")	International Equities Trust ("AEIET")			
		2010 \$	2009 \$	2010 \$	2009 \$	2010 \$	2009 \$	2009 \$
+5% AUD v's	CHF	-	-	-	-	(6,151)	-	(41,090)
-5% AUD v's		-	-	-	-	6,151	-	41,090
+5% AUD v's	DKK	-	-	(19,182)	(112,765)	(7,561)	(60,588)	(50,508)
-5% AUD v's		-	-	19,182	112,765	7,561	60,588	50,508
+5% AUD v's	EUR	-	-	(437,672)	(325,717)	(25,510)	(1,382,340)	(389,470)
-5% AUD v's		-	-	437,672	351,321	58,304	1,382,340	389,470
+5% AUD v's	GBP	-	-	(74,969)	(92,170)	(13,391)	(236,793)	(123,788)
-5% AUD v's		-	-	74,969	114,179	16,547	236,793	123,788
+5% AUD v's	HKD	-	-	(90,325)	(109,245)	(13,852)	(285,297)	(92,533)
-5% AUD v's		-	-	90,325	109,245	13,852	285,297	92,533
+5% AUD v's	JPY	-	-	(197,101)	(166,938)	(20,068)	(622,534)	(178,933)
-5% AUD v's		-	-	197,101	187,826	26,786	622,534	178,933
+5% AUD v's	NOK	-	-	(23,076)	(51,231)	(7,036)	(72,886)	(46,998)
-5% AUD v's		-	-	23,076	51,231	7,036	72,886	46,998
+5% AUD v's	NZD	-	-	(58,073)	(21,889)	(15,019)	(183,428)	(116,147)
-5% AUD v's		-	-	58,073	27,400	17,387	183,428	116,147
+5% AUD v's	SEK	-	-	-	-	(3,904)	-	(26,081)
-5% AUD v's		-	-	-	-	3,904	-	26,081
+5% AUD v's	SGD	-	-	(35,315)	(81,640)	(12,996)	(111,544)	(86,817)
-5% AUD v's		-	-	35,315	81,640	12,996	111,544	86,817
+5% AUD v's	USD	-	-	(619,015)	(656,728)	(22,086)	(1,955,124)	(599,052)
-5% AUD v's		-	-	619,015	770,673	61,855	1,955,124	599,052
+5% AUD v's	Total change in equity	-	-	(1,554,728)	(1,618,323)	(147,574)	(4,910,534)	(1,751,415)
-5% AUD v's	Total change in equity	-	-	1,554,728	1,806,280	232,380	4,910,534	1,751,415

Notes to the financial statements for the year ended 30 June 2010

Note 17 - Financial instruments - continued

Interest rate risk

Management has performed a sensitivity analysis relating to the Investment Trusts' exposure to interest rate risk at balance date. This sensitivity analysis demonstrates the effect on the current year results and net assets attributable to unitholders which could result from a change in these risks. In the analysis it is assumed that the amount of financial assets exposed to fluctuations in interest rates as at balance date is representative of balances held throughout the financial year. No other flow on effects of fluctuations in interest rates have been taken into account.

At 30 June 2010, the effect on profit and net assets attributable to unitholders, as a result of changes in the interest rate, with all other variables remaining constant would be as follows:

Interest rate sensitivity analysis Change in profit							
Balanced Trust ("AEBT")		Property Trust ("AEPT")		Balanced Trust Consolidated ("AEBTC")		Smaller Companies Trust ("AEST")	
2010	2009	2010	2009	2010	2009	2010	2009
\$	\$	\$	\$	\$	\$	\$	\$
814,167	788,062	(68,105)	961	746,062	789,022	70,925	150,580
(814,167)	(788,062)	68,105	(961)	(746,062)	(789,022)	(70,925)	(150,580)

Change in profit

Increase in interest rate by 1%

Decrease in interest rate by 1%

Interest rate sensitivity analysis Change in net assets attributable to unitholders							
Balanced Trust ("AEBT")		Property Trust ("AEPT")		Balanced Trust Consolidated ("AEBTC")		Smaller Companies Trust ("AEST")	
2010	2009	2010	2009	2010	2009	2010	2009
\$	\$	\$	\$	\$	\$	\$	\$
814,167	788,062	(68,105)	961	746,062	789,022	70,925	150,580
(814,167)	(788,062)	68,105	(961)	(746,062)	(789,022)	(70,925)	(150,580)

Change in net assets

attributable to unitholders

Increase in interest rate by 1%

Decrease in interest rate by 1%

Notes to the financial statements for the year ended 30 June 2010

Note 17 - Financial instruments - continued

Interest rate risk

Management has performed a sensitivity analysis relating to the Investment Trusts' exposure to interest rate risk at balance date. This sensitivity analysis demonstrates the effect on the current year results and net assets attributable to unitholders which could result from a change in these risks. In the analysis it is assumed that the amount of financial assets exposed to fluctuations in interest rates as at balance date is representative of balances held throughout the financial year. No other flow on effects of fluctuations in interest rates have been taken into account.

At 30 June 2010, the effect on profit and net assets attributable to unitholders, as a result of changes in the interest rate, with all other variables remaining constant would be as follows:

Interest rate sensitivity analysis Change in profit							
Income Trust ("AEIT")		Larger Companies Trust ("AELT")		World Trust ("AEWT")		International Equities Trust ("AEIET")	
2010 \$	2009 \$	2010 \$	2009 \$	2010 \$	2009 \$	2010 \$	2009 \$
206,295	201,019	55,260	42,521	207	1,896	57,717	25,832
(206,295)	(201,019)	(55,260)	(42,521)	(207)	(1,896)	(57,717)	(25,832)

Change in profit

Increase in interest rate by 1%

Decrease in interest rate by 1%

Interest rate sensitivity analysis Change in net assets attributable to unitholders							
Income Trust ("AEIT")		Larger Companies Trust ("AELT")		World Trust ("AEWT")		International Equities Trust ("AEIET")	
2010 \$	2009 \$	2010 \$	2009 \$	2010 \$	2009 \$	2010 \$	2009 \$
206,295	201,019	55,260	42,521	207	1,896	57,717	25,832
(206,295)	(201,019)	(55,260)	(42,521)	(207)	(1,896)	(57,717)	(25,832)

Change in net assets

attributable to unitholders

Increase in interest rate by 1%

Decrease in interest rate by 1%

**Note 18 - Controlled entities**

Controlled entities consolidated parent entity	Country of establishment	Percentage owned	
		2010	2009
Subsidiaries of Australian Ethical Balanced Trust:			
Australian Ethical Property Trust	Australia	96	100
Australian Ethical International Equities Trust	Australia	32	85

**Acquisitions - disposals of controlled entities**

Australian Ethical Balanced Trust acquired additional units in Australian Ethical Property Trust (AEPT) (2,308,255), during the year.

Australian Ethical Balanced Trusts' majority holding in the AEIET was diluted to 32% of the Trust, thus there is no longer a requirement for the AEBT to consolidate the entries of the AEIET. Additionally the trust acquired further units of (4,144,121) in the trust, during the year.

**Note 19 - Events after the balance sheet date**

During July 2010 the AEBT's majority holding of the AEPT was diluted below 50% as a result of other investors into the AEPT. The AEBT currently holds 49% of the AEPT.

Except as otherwise noted, during the period between the end of the financial year and the date of this report, there were no items, transactions or events of a material and unusual nature likely in the opinion of the responsible entity, to affect significantly the operations of the schemes, the results of those operations, or the state of affairs of the schemes in future financial years.

**Note 20 - Scheme details**

The registered office and principal place of business of the schemes is Trevor Pearcey House, Traeger Court, 34 Thynne St, Bruce ACT. The principal activity of the schemes is to pool investors' savings to invest in securities, including both domestic and international. Investments are sought to pursue the goal of a just and sustainable society and the protection of the natural environment as well as providing unitholders (the scheme investors) with a competitive financial return.

**Note 21 - Key management personnel compensation**

AASB 124 "Related Party Disclosures" requires disclosure of compensation of key management personnel. Key management personnel (KMP) is defined as persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

The schemes have no employees, however, the directors and other KMP of the Responsible Entity, as stated below, are deemed to be the KMP of the scheme. These individuals and the Responsible Entity comprise the KMP of the scheme.

**a) Key management personnel**

Names and positions of key management personnel (directors and named executives) at any time during the financial year

## Parent entity directors

Name	Position	
James Thier	Director, executive	Resigned 11 August 2009
Howard Pender	Director, executive	
Naomi Edwards	Director, non-executive	
Justine Hickey	Director, non-executive	
Anne O'Donnell	Managing Director, executive	
Les Coleman	Director, non-executive	
André Morony	Director, non-executive	

## Other key management personnel

Name	Position	
Gary Leckie	Chief financial officer	Resigned 30 June 2010 Appointed 7 December 2009 Appointed 7 June 2010
Tim Xlrakis	Finance Investment Manager	
Philip George	Company secretary / legal counsel	
Paul Harding Davis	Head of Distribution	
Martin Halloran	Chief Investment Officer	
Phillip Vernon	Chief executive officer	
James Jordan	Chief Investment Officer	

**b) Key management personnel compensation**

Remuneration policy

Directors

The aggregate amount of remuneration payable to non-executive directors for the performance of their duties as directors is set by the company in general meeting from time to time. In proposing any motions on non-executive director remuneration to a general meeting, the board has regard to market rates for directorships in similar companies operating in similar industries. It also has regard to recommendations from the remuneration and nominations committee. Within the approved aggregate amount, fees paid to individual non-executive directors for services as a non-executive director are determined by the board. During the relevant period, the chair received a higher amount, with other non-executive directors receiving an equal amount.

Under the constitution, non-executive directors are also entitled to be paid reasonable expenses, remuneration for extra services and superannuation contributions. In particular, non-executive directors are paid for serving on board committees.

Executive directors receive remuneration as employees of the company.

There are no arrangements to pay any director a retirement benefit.

Secretaries, senior managers, executive directors and group executives

During the reporting period, the company's remuneration policy was to treat all staff (including secretaries, senior managers, executive directors and group executives) in an equitable fashion. All permanent staff (including secretaries, senior managers and executives) received a cash salary and participated in a staff bonus and employee share incentive scheme. The arrangements did not apply to non executive directors.

During the reporting period, remuneration for a number of senior managers included an 'at risk' component linked to performance criteria.

For the senior managers with an at risk component, the performance conditions required the executives to achieve objectives related to: performance of the company's managed funds; return on equity; cost to income ratio; project delivery; funds under management; engagement with asset consultants, ratings agencies and institutional clients; and development of marketing strategies/collateral.

The performance conditions were chosen to align the senior managers' objectives with those set out in the company's strategic plan. The remuneration and nominations committee was responsible for assessing whether the managing director met their performance conditions. The managing director was responsible for assessing whether the other senior managers had met their performance conditions. In both cases, quantitative and qualitative aspects were able to be assessed.

The company's general remuneration policy also accords with the Australian Ethical Charter, as set out in the constitution of the company. It is designed to ensure the company does not

"exploit people through the payment of low wages or the provision of poor working conditions"

and to facilitate:

"the development of workers participation in the ownership and control of their work organisations and places."

The company reviews individual remuneration annually. As part of this process it benchmarks its remuneration levels and its policies on employee benefits and work/life balance. Individual staff remuneration is considered with reference to the benchmarks and in accordance with guidelines approved by the board. The board aims to remunerate responsibly and fairly, with reference to the market.

All permanent staff are eligible to participate in an annual staff bonus. Under the company's constitution, before the directors recommend or declare a dividend to be paid out of profits of any one year, they must pay a bonus to current employees which is set by reference to the profit of the company for that year. Each full time staff member receives the same bonus amount and part-time staff (or those not employed full-time through the full year) receive a pro-rata amount. The company's constitution provides that the bonus can be (and often has been) satisfied by the issue of shares, under employee share ownership arrangements.

An employee share ownership scheme operated up to the 2008/09 year. Under the scheme a pool of options which would, if exercised, amount to 5% of the company's existing ordinary share capital were issued to staff each year. All permanent, non-probationary staff were eligible to participate in the plan. The options were issued for nil consideration and the price at which the options are exercisable was set at 10% in excess of the market price of the shares as at the date of grant. The number of options received by an individual staff member depended on their remuneration. Options are not exercisable for a period of three years from their date of grant. At the end of the three year period, the options must be exercised within a three month exercise window or they lapse. During the three month exercise window, options can also be sold once, with the transferee then needing to exercise during the three month window, or the options lapse. In most circumstances, the options also lapse where an employee's employment ceases before the options are exercisable. The options confer no voting or dividend rights.

In the current reporting period, performance rights were issued to staff under an employee share incentive scheme. This scheme was approved at the 2008 Annual General Meeting.

Under the scheme participants are granted performance rights to ordinary shares, subject to meeting specified performance criteria over the performance period. Ordinary shares will be issued at the end of the performance period. The number of shares that a participant will ultimately receive will depend on the extent to which the performance criteria are met by the company and, as applicable, the individual employee.

The scheme has two categories a general category and an individual category. All eligible employees participate in the general category. Employees participating in the individual category are subject to individual performance criteria.

## Notes to the financial statements for the year ended 30 June 2010

10,819 rights were issued under the general category and 5,511 were issued under the individual category.

Subject to the terms and conditions of the scheme rules, the performance rights have the following attributes determining whether shares will be issued in respect of the rights:

### General category

- employment must continue until 30 June 2012;
- the arithmetic average return on equity over the performance period (AROE) must exceed 15% pa or no shares shall be awarded at the end of the performance period;
- if the AROE exceeds 15% pa but is less than 20% pa, half the maximum number of shares shall be awarded;
- if the AROE is equal to or greater than 20% pa the maximum number of shares shall be awarded.
- AROE is determined as the arithmetic average of return on equity over six month periods calculated using audited half year financial statements.
- the performance period is the three financial years 2009-10, 2010-11 and 2011-12.

### Individual category

- employment must continue until 11 November 2010;
- the number of shares that will be issued to each employee in respect of their performance rights under this category will be adjusted up or down by a maximum 20%, dependent on the absolute performance of one of the company's managed investment schemes, for which the employee has responsibility or provides significant input. The nominated managed investment scheme has been agreed between the company and the employee. Performance will be measured over a performance period of 1 July 2009 to 30 June 2010.

### Performance-based remuneration and company performance

The payment of the staff bonus is set by reference to the profit of the company for a relevant year. Higher company profits in a year correspondingly increase the aggregate amount that directors could determine be paid to current employees as a bonus.

Details of options previously issued under the employee share ownership plan are set out under remuneration policy above. Options issued under the employee share ownership plan were performance based in two ways. Firstly, they were subject to a three year employment condition and secondly, option value can only be realised if the market value of the underlying shares increase by 10% between the period of grant and the period when the options can be exercised.

By way of example, options issued under the scheme which became exercisable in the 2009-10 year had an exercise price of \$32.50. The share price through the exercise period was for the most part either lower than the exercise price or only marginally higher. Given the share price at the time of exercise, the result is that staff did not realise any significant benefit from these options.

Performance rights issued under the general employee share incentive scheme are performance based in two ways. Firstly, they are subject to a three year employment condition. Secondly, shares will only be issued in respect of the performance rights where return on equity meets the levels described above.

Performance rights issued under the individual employee share incentive scheme are linked to the performance of the company's managed funds as described above.

The remuneration policy discussed above has broadly been in place for the current and the previous five financial years, except that individual performance based elements have been introduced for some senior managers and staff over the last three years.

### Remuneration details for the year ended 30 June 2010

#### Parent entity directors' remuneration

Parent entity director's remuneration		Short-term benefits			Post-employment benefits	Long-term benefits	Termination benefits	Equity-settled share-based payments			Total
		Salary, fees and leave \$	Cash bonus \$	Other \$		Long service leave \$		Shares \$	Options \$	Rights \$	
Caroline Le Couteur	2010	-	-	-	-	-	-	-	-	-	-
	2009	52,964	6,000	-	4,485	1,097	-	-	-	-	64,546
James Thier	2010	122,576	14,150	-	12,874	3,604	-	-	-	9,439	162,643
	2009	158,515	26,300	-	15,863	3,297	-	1,000	4,979	-	209,954
Howard Pender	2010	132,334	2,626	-	12,652	3,856	-	-	-	9,469	160,937
	2009	165,096	-	-	14,171	3,378	-	3,900	4,840	-	191,385
Naomi Edwards	2010	81,000	-	-	7,290	-	-	-	-	-	88,290
	2009	71,500	-	-	6,435	-	-	-	-	-	77,935
Justine Hickey	2010	31,950	-	-	2,876	-	-	-	-	-	34,826
	2009	30,000	-	-	2,700	-	-	-	-	-	32,700
Anne O'Donnell	2010	95,938	4,000	-	8,718	2,927	235,000	-	-	-	346,583
	2009	224,420	5,000	-	20,973	6,327	-	6,000	23,726	-	286,446
André Morony	2010	25,000	-	-	2,250	-	-	-	-	-	27,250
	2009	23,500	-	-	2,115	-	-	-	-	-	25,615
Les Coleman	2010	26,000	-	-	2,340	-	-	-	-	-	28,340
	2009	24,000	-	-	2,160	-	-	-	-	-	26,160
Total parent entity director's remuneration	2010	514,798	20,776	-	49,000	10,387	235,000	-	-	18,908	848,869
	2009	749,995	37,300	-	68,902	14,099	-	10,900	33,545	-	914,741

Notes to the financial statements for the year ended 30 June 2010

Named executives remuneration (including other key management personnel)

Named executives (including other KMP) remuneration		Short-term benefits			Post-employment benefits	Long-term benefits	Termination benefits	Equity-settled share-based payments			Total
		Salary, fees and leave	Cash bonus	Other	Super-annuation	Long service leave		Shares	Options	Rights	
		\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Philip George	2010	179,638	4,000	-	15,836	(8,483)	-	-	-	14,825	205,816
	2009	177,375	6,000	-	15,831	3,558	-	-	19,434	-	222,198
Ruth Medd	2010	42,350	-	-	3,690	-	-	-	-	-	46,040
	2009	42,000	-	-	3,780	-	-	-	-	-	45,780
Gary Leckie	2010	179,309	4,000	-	16,206	1,510	-	-	-	14,973	215,998
	2009	178,422	6,000	-	15,990	5,284	-	-	17,194	-	222,890
Tim Xirakis	2010	184,881	4,000	-	15,779	1,510	-	-	-	14,588	220,758
	2009	190,597	6,000	-	15,789	3,675	-	-	16,979	-	233,040
Paul Harding Davis	2010	196,696	21,500	-	19,491	3,989	-	-	-	15,712	257,388
	2009	193,503	32,535	-	19,697	3,989	-	2,770	9,498	-	261,992
Martin Halloran	2010	245,064	3,366	-	15,017	4,937	-	-	-	48,066	316,450
	2009	201,721	-	-	11,517	4,173	-	-	-	-	217,411
Phillip Vernon	2010	154,135	-	-	12,799	2,981	-	-	-	8,204	178,119
	2009	-	-	-	-	-	-	-	-	-	-
James Jordan	2010	150,951	3,200	-	14,013	4,179	-	-	-	40,471	212,814
	2009	-	-	-	-	-	-	-	-	-	-
Named executives (including other KMP) remuneration	2010	1,333,024	40,066	-	112,831	10,623	-	-	-	156,839	1,653,383
	2009	983,618	50,535	-	82,604	20,679	-	2,770	63,105	-	1,203,311

Cash bonus compensation benefits

Details of cash bonuses paid to key management personal are included in the remuneration tables set out above. The annual staff cash bonuses of \$4,000 per FTE employee were paid on 11 September 2009. The nature of the cash bonuses and the criteria used to determine the amount of the payments are detailed in the remuneration policy and in the discussion on performance based remuneration and company performance.

Analysis of bonuses included in remuneration

The vesting profile of short term-incentive bonuses are detailed below. No amounts vest in future financial years in respect of the short term-incentive bonuses for the 2010 year.

	Short-term incentive bonus				
	Cash bonus (1)	Performance bonus	Share bonus	Vested in year	Forfeited in year (2)
	\$	\$	\$	%	%
<b>Parent entity directors</b>					
James Thier	3,212	10,938	-	88	12
Howard Pender	2,626	-	-	100	-
Anne O'Donnell	4,000	-	-	100	-
<b>Named executives (including other KMP)</b>					
Philip George	4,000	-	-	100	-
Gary Leckie	4,000	-	-	100	-
Tim Xirakis	4,000	-	-	100	-
Paul Harding Davis	4,000	17,500	-	70	30
Martin Halloran	3,366	-	-	100	-
James Jordan	3,200	-	-	100	-

(1) Details of cash and performance bonus have been provided in the Responsible Entities' director's report under remuneration policy

(2) The amounts forfeited are due to the performance or service criteria not being met in relation to the current financial year

Notes to the financial statements for the year ended 30 June 2010

Equity based remuneration

Equity based remuneration consists of grants of options and rights under the company's employee share ownership plan and employee share incentive scheme. Details of the share plans (including the service and performance criteria) are provided in the section on remuneration policy above.

Set out in the following table are the holdings of equity instruments granted to the KMP that existed during the reporting period and includes details of vesting profiles of options/rights granted as compensation.

Option holdings:

KMP option holdings	Option class	Grant date	Fair value at grant date	No. granted	No. vested & exercised	% of grant vested	No. expired	% of grant forfeited	Financial year in which grant vests
<b>Parent entity directors</b>									
James Thier	AEFAS	22-Sep-06	\$ 4.14	-	-	100%	( 1,432)	100%	22-Sep-09
	AEFAT	24-Sep-07	\$ 8.40	-	-	-	-	-	24-Sep-10
	AEFAU	1-Dec-08	\$ 3.65	-	-	-	-	-	14-Oct-11
	<b>2010 Total</b>			1,364	( 1,800)	100%	( 1,432)	-	
Howard Pender	AEFAS	22-Sep-06	\$ 4.14	-	-	100%	( 1,469)	100%	22-Sep-09
	AEFAT	24-Sep-07	\$ 8.40	-	-	-	-	-	24-Sep-10
	AEFAU	1-Dec-08	\$ 3.65	-	-	-	-	-	14-Oct-11
	<b>2010 Total</b>			1326	( 931)	100%	( 1,469)	-	
Anne O'Donnell	AEFAS	22-Sep-06	\$ 4.14	-	-	100%	( 2,909)	100%	22-Sep-09
	AEFAT	24-Sep-07	\$ 8.40	-	-	-	-	-	24-Sep-10
	AEFAU	14-Oct-08	\$ 8.96	-	-	-	-	-	14-Oct-11
	<b>2010 Total</b>			2,648	( 3,006)	100%	( 2,909)	-	
Philip George	AEFAS	22-Sep-06	\$ 4.14	-	-	100%	( 2,356)	100%	22-Sep-09
	AEFAT	24-Sep-07	\$ 8.40	-	-	-	-	-	24-Sep-10
	AEFAU	14-Oct-08	\$ 3.65	-	-	-	-	-	14-Oct-11
	<b>2010 Total</b>			2,169	( 2,356)	100%	( 2,356)	-	
Gary Leckie	AEFAS	22-Sep-06	\$ 4.14	-	-	100%	( 1,443)	100%	22-Sep-09
	AEFAT	24-Sep-07	\$ 8.40	-	-	-	-	-	24-Sep-10
	AEFAU	14-Oct-08	\$ 3.65	-	-	-	-	-	14-Oct-11
	<b>2010 Total</b>			1,919	( 1,387)	100%	( 1,443)	-	
Tim Xirakis	AEFAS	22-Sep-06	\$ 4.14	-	-	100%	( 1,387)	100%	22-Sep-09
	AEFAT	24-Sep-07	\$ 8.40	-	-	-	-	-	24-Sep-10
	AEFAU	14-Oct-08	\$ 3.65	-	-	-	-	-	14-Oct-11
	<b>2010 Total</b>			1,895	-	100%	( 1,387)	-	
Paul Harding Davis	AEFAU	14-Oct-08	\$ 3.65	-	-	-	-	-	14-Oct-11
	<b>2010 Total</b>			1,060	-	-	-	-	
	<b>2009 Total</b>			-	-	-	-	-	
James Jordan	AEFAT	24-Sep-07	\$ 8.40	-	-	-	-	-	24-Sep-10
	AEFAU	14-Oct-08	\$ 3.65	-	-	-	-	-	14-Oct-11
	<b>2010 Total</b>			1,243	-	-	-	-	

Rights holdings:

KMP rights holdings	Rights class	Grant date	Fair value at grant date	No. granted	Value of rights granted (\$)	No. vested and exercised	% of grant vested	No. lapsed	Value of rights lapsed (\$)	% of grant lapsed
<b>Parent entity directors</b>										
James Thier	AEFAW	30-Nov-09	\$ 29.59	319	\$9,439	-	-	-	-	-
			<b>2010 Total</b>	<b>319</b>	<b>\$9,439</b>	-	-	-	-	-
			<b>2009 Total</b>	-	-	-	-	-	-	-
Howard Pender	AEFAW	30-Nov-09	\$ 29.59	320	\$9,469	-	-	-	-	-
			<b>2010 Total</b>	<b>320</b>	<b>\$9,469</b>	-	-	-	-	-
			<b>2009 Total</b>	-	-	-	-	-	-	-
Philip George	AEFAW	30-Nov-09	\$ 29.59	501	\$14,825	-	-	-	-	-
			<b>2010 Total</b>	<b>501</b>	<b>\$14,825</b>	-	-	-	-	-
			<b>2009 Total</b>	-	-	-	-	-	-	-
Gary Leckie	AEFAW	30-Nov-09	\$ 29.59	506	\$14,973	-	-	-	-	-
			<b>2010 Total</b>	<b>506</b>	<b>\$14,973</b>	-	-	-	-	-
			<b>2009 Total</b>	-	-	-	-	-	-	-
Tim Xirakis	AEFAW	30-Nov-09	\$ 29.59	493	\$14,588	-	-	-	-	-
			<b>2010 Total</b>	<b>493</b>	<b>\$14,588</b>	-	-	-	-	-
			<b>2009 Total</b>	-	-	-	-	-	-	-
Paul Harding Davis	AEFAW	30-Nov-09	\$ 29.59	531	\$15,712	-	-	-	-	-
			<b>2010 Total</b>	<b>531</b>	<b>\$15,712</b>	-	-	-	-	-
			<b>2009 Total</b>	-	-	-	-	-	-	-
Martin Halloran	AEFAW	30-Nov-09	\$ 32.91	966	\$31,791	-	-	(966)	\$22,411	100%
			\$ 29.59	550	\$16,275	-	-	(550)	\$12,760	100%
			<b>2010 Total</b>	<b>1516</b>	<b>\$48,066</b>	-	-	<b>(1,516)</b>	<b>\$35,171</b>	-
Phillip Vernon	AEFAW	17-Dec-09	\$ 25.88	317	\$8,204	-	-	-	-	-
			<b>2010 Total</b>	<b>317</b>	<b>\$8,204</b>	-	-	-	-	-
			<b>2009 Total</b>	-	-	-	-	-	-	-
James Jordan	AEFAW	30-Nov-09	\$ 32.91	862	\$28,368	-	-	-	-	-
			\$ 29.59	409	\$12,102	-	-	-	-	-
			<b>2010 Total</b>	<b>1271</b>	<b>\$40,471</b>	-	-	-	-	-
			<b>2009 Total</b>	-	-	-	-	-	-	-

## Hedging policy

Directors and executives participating in the company's equity-based plans are prohibited from entering into any transaction which would have the effect of hedging or otherwise transferring to any other person the risk of any fluctuation in the value of any unvested entitlement in the company's securities.

*Explanation of relative proportions of elements of remuneration that are related to performance*

Non-executive directors receive their total remuneration as cash or superannuation contributions. No element is dependent on performance.

Except as detailed for those senior managers, the remuneration of executive directors, secretaries and other senior managers is not subject to individual performance conditions. People in these positions were entitled to participate in the staff bonus and employee share schemes described above. Rights granted during the financial year, when valued at grant date, make up a small proportion of the overall remuneration of people holding these positions.

The following table illustrates the proportion of remuneration that was performance and non-performance based and the proportion of remuneration received in the form of options/ rights during the financial year

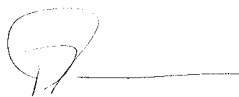
	Proportion of elements of remuneration related to performance			Proportion of elements of remuneration not related to performance	
	Non-salary cash-based incentives	Shares	Options / rights	Fixed salary/ fees	Total
	%	%	%	%	%
<b>Parent entity directors' remuneration</b>					
James Thier	7	-	6	87	100
Howard Pender	-	-	6	94	100
Naomi Edwards	-	-	-	100	100
Justine Hickey	-	-	-	100	100
Anne O'Donnell	-	-	-	100	100
André Morony	-	-	-	100	100
Les Coleman	-	-	-	100	100
<b>Named executives (including other KMP)</b>					
Philip George	-	-	7	93	100
Ruth Medd	-	-	-	100	100
Gary Leckie	-	-	7	93	100
Tim Xirakis	-	-	7	93	100
Paul Harding Davis	7	-	6	87	100
Martin Halloran	-	-	15	85	100
Phillip Vernon	-	-	5	95	100
James Jordan	-	-	19	81	100

## **Directors' Declaration**

The Directors of Australian Ethical Investment Limited (the responsible entity) declare that:

1. the financial statements of Australian Ethical Balanced Trust, Australian Ethical Property Trust, Australian Ethical Smaller Companies Trust, Australian Ethical Income Trust, Australian Ethical Larger Companies Trust, Australian Ethical World Trust and Australian Ethical International Equities Trust and notes as set out on pages 6 to 58 are in accordance with the Corporations Act 2001:
  - (a) comply with Accounting Standards and the Corporations Regulations 2001; and
  - (b) give a true and fair view of the financial position as at 30 June 2010 and of the performance for the financial year ended on that date for each scheme.
2. In the Directors' opinion there are reasonable grounds to believe that each scheme will be able to pay its debts as and when they become due and payable.
3. The schemes have operated during the financial year ended 30 June 2010 in accordance with the provisions of the scheme's constitution.

This declaration is made in accordance with a resolution of the Board of Directors of Australian Ethical Investment Limited.



Phillip Vernon  
Managing Director  
Australian Ethical Investment Limited  
ABN 47 003 188 930  
22 September 2010

## **INDEPENDENT AUDITOR'S REPORT TO THE UNITHOLDERS OF**

### **AUSTRALIAN ETHICAL BALANCED TRUST AUSTRALIAN ETHICAL INTERNATIONAL EQUITIES TRUST AUSTRALIAN ETHICAL EQUITIES TRUST AUSTRALIAN ETHICAL INCOME TRUST AUSTRALIAN ETHICAL LARGE COMPANIES SHARE TRUST AUSTRALIAN ETHICAL WORLD TRUST**

We have audited the accompanying financial reports of Australian Ethical Balanced Trust, Australian Ethical Property Trust, Australian Ethical Balanced Trust Consolidated, Australian Ethical Smaller Companies Trust, Australian Ethical Income Trust, Australian Ethical Larger Companies Trust, Australian Ethical World Trust and Australian Ethical International Equities Trust ("the schemes"), which comprises the balance sheets as at 30 June, 2010 and the income statements, and cash flow statements for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration of the schemes.

#### *The Directors of the Responsible Entity's Responsibility for the Financial Report*

The Directors of the Responsible Entity, Australian Ethical Investment Limited are responsible for the preparation and fair presentation of the financial reports in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial reports that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

In Note 1, the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial reports, comprising the financial statements and notes, complies with International Financial Reporting Standards.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on the financial reports based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial reports are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial reports. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial reports, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the schemes preparation and fair presentation of the financial reports in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of each schemes internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Independence*

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001

*Auditors Opinion*

In our opinion:

(a) the financial reports of Australian Ethical Balanced Trust, Australian Ethical Property Trust, Australian Ethical Balanced Trust Consolidated, Australian Ethical Smaller Companies Trust, Australian Ethical Income Trust, Australian Ethical Larger Companies Trust, Australian Ethical World Trust and Australian Ethical International Equities Trust are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view each scheme's financial position as at 30 June, 2010 and of their performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

(b) the financial reports also comply with International Financial Reporting Standards as disclosed in Note 1; and

(c) the financial reports are in accordance with the provisions of each of the schemes constitutions.



**THOMAS DAVIS & CO.**



**J.G. RYAN PARTNER**

**Chartered Accountants**

SYDNEY,

22 September 2010

Liability limited by a scheme approved under Professional Standards Legislation

**Directors' Report**  
**For the year ended 30 June 2010**

Following are the inaugural financial statements for the Climate Advocacy Fund.

Australian Ethical Investment Limited, the responsible entity of the Climate Advocacy Fund (CAF), presents its directors' report together with the audited financial statements of the scheme for the period ended 30 June 2010 and the accompanying independent auditor's report.

**Responsible entity**

Australian Ethical Investment Limited was appointed the responsible entity of the CAF upon commencement on 26 August 2009 and this scheme was registered as a managed investment scheme with the Australian Securities and Investments Commission (ASIC) on 18 November 2009.

The Directors of Australian Ethical Investment Limited during or since the end of the financial year are disclosed in note 13 to the financial statements.

**Principal activities and state of affairs**

The key aims of the Climate Advocacy Fund are to:

- a) Improve corporate behaviour, performance and sustainability through advocacy - actively and constructively engaging with companies on environmental, social and governance issues with a particular focus on climate change;
- b) Provide investors with a return similar to the broad share market. The Climate Advocacy Fund will invest using an index (or 'passive management') approach with a view to achieve returns at least equal to the broader share market - the S&P/ASX 200 index. The portfolio will be constructed using an 'economic footprint' weighting. Historically portfolios constructed using the 'economic footprint' approach have tended to out-perform the broad share market index; and
- c) Provide investors with a low fee investment option.

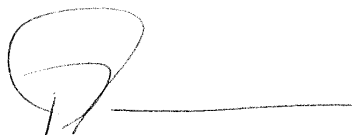
**Review of year's operations**

The Fund achieved a total return of -0.50% for the period. The scheme paid a distribution of \$3,550 for the year. The value of the Fund's net assets attributable to unitholders as at 30 June 2010 was \$488,617. The Fund was officially launched in early July 2010.

**Auditor's declaration**

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 forms part of this report and follows at the end of the report.

Signed in accordance with a resolution of the Board of Directors of Australian Ethical Investment Limited.



Phillip Vernon  
Managing Director  
Australian Ethical Investment Limited  
ABN 47 003 188 930  
22 September 2010

**CLIMATE ADVOCACY FUND**

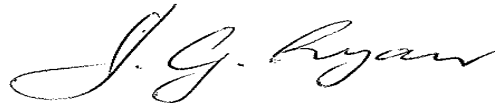
**AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C  
OF THE CORPORATIONS ACT 2001**

I declare that, to the best of my knowledge and belief, during the period ended 30 June 2010 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.



THOMAS DAVIS & CO



J.G.RYAN PARTNER

SYDNEY  
22 September 2010

Liability limited by a scheme approved under Professional Standards Legislation

Statement of Financial Position as at 30 June 2010

		Climate Advocacy Fund ("CAF")	
		2010	2009
		\$	\$
<b>Assets</b>			
Cash and cash equivalents	4	40,258	-
Trade and other receivables	5	7,906	-
Financial assets	6	444,199	-
<b>Total assets</b>		<b>492,363</b>	<b>-</b>
<b>Liabilities</b>			
Trade and other payables	7	196	-
Distribution payable	8	3,550	-
<b>Total liabilities excluding net assets attributable to unitholders</b>		<b>3,746</b>	<b>-</b>
<b>Net assets attributable to unitholders</b>	3	<b>488,617</b>	<b>-</b>
<b>Total liabilities</b>		<b>492,363</b>	<b>-</b>

The accompanying notes form part of these financial statements.

**Statement of Comprehensive Income for the period ended 30 June 2010**

		<b>Climate Advocacy Fund ("CAF")</b>	
	Notes	<b>2010</b>	<b>2009</b>
		<b>\$</b>	<b>\$</b>
<b>Investment income</b>			
Distributions		3,436	-
Interest		618	-
Other income		19	-
Unrealised increment (decrement) on fluctuation in value of investments		(21,485)	-
		<u>(17,412)</u>	<u>-</u>
<b>Less expenditure</b>			
<b>Notes to the financial statements for the period ended 30 June 2010</b>			
Responsible entity fees	11	523	-
		<u>523</u>	<u>-</u>
<b>Profit (loss) from operating activities</b>		(17,935)	-
<b>Other comprehensive income</b>		-	
<b>Total comprehensive income attributable to unitholders</b>		<u>(17,935)</u>	
Finance costs - distributions to unitholders	8	<u>(3,550)</u>	-
<b>Change in net assets attributable to unitholders</b>	3	<u><u>(21,485)</u></u>	<u>-</u>

The accompanying notes form part of these financial statements.

**Statement of Cash Flows for the period ended 30 June 2010**

		<b>Climate Advocacy Fund ("CAF")</b>	
	Notes	<b>2010</b>	<b>2009</b>
		<b>\$</b>	<b>\$</b>
<b>Cash flows from operating activities</b>			
Interest received		618	-
Expenses		(359)	-
<i>Net cash provided by</i>			
<i>(used in) operating activities</i>	10	<u>259</u>	<u>-</u>
<b>Cash flows from investing activities</b>			
Payment for investments		(465,001)	-
<i>Net cash provided by</i>			
<i>(used in) investing activities</i>		<u>(465,001)</u>	<u>-</u>
<b>Cash flows from financing activities</b>			
Proceeds from issue of units		505,000	-
<i>Net cash provided by</i>			
<i>(used in) financing activities</i>		<u>505,000</u>	<u>-</u>
Net increase (decrease) in cash held		40,258	-
Cash at 1 July 2009		-	-
Cash at 30 June 2010	4	<u><u>40,258</u></u>	<u><u>-</u></u>

The accompanying notes form part of these financial statements.

**Note 1 - Statement of significant accounting policies**

These Financial statements are general purpose financial statements that has been prepared in accordance with the Constitution of the Climate Advocacy Fund, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board.

The Financial statements covers the Climate Advocacy Fund as an individual entity. Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards. The Fund is established and domiciled in Australia.

The following is a summary of the material accounting policies adopted by the Fund in the preparation of the Financial statements. The accounting policies have been consistently applied, unless otherwise stated.

*Reporting Basis and Conventions*

The Financial statements have been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected financial assets for which the fair value basis of accounting has been applied.

**Accounting policies**

**(a) Cash and cash equivalents**

Cash and cash equivalents include cash on hand and deposits held at call with banks.

**(b) Financial instruments**

**Recognition**

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

**Financial assets at fair value through profit and loss**

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management and within the requirements of AASB 139: Recognition and Measurement of Financial Instruments.

**Financial liabilities**

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

**Fair value**

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

**(c) Payables**

Liabilities are recognised for all amounts due at balance date. Creditors are normally settled within 30 days.

**Note 1 - Statement of significant accounting policies - *continued***

**(d) Distribution**

The Climate Advocacy Fund distributes to the unitholders the income (generally net taxable income plus non-taxable income, not including realised capital gains) earned by the Fund each six months. In addition, normally taxable capital gains realised over the full financial year will be included with the distribution for the six months ending 30 June. The non-taxable component of income may be retained in the Fund.

'Net taxable income' is all the income earned by the Fund, less expenses incurred in obtaining that income, and is determined in accordance with section 95 of the Income Tax Assessment Act.

**(e) Change in net assets attributable to unitholders**

Change in net assets attributable to unitholders may consist of realised net capital losses and unrealised increments and decrements arising on fluctuation in value of investments. They are included in the determination of distributable income when assessable for taxation purposes.

**(f) Revenue**

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Dividend revenue is recognised when the right to receive a dividend has been established.

Trust distributions are recognised on an accrual basis.

Unrealised increments and decrements arising on fluctuation in value of investments are included in the net operating income for the year.

**(g) Applications and redemptions**

Applications received for units in the Fund are recorded net of any contribution fees payable prior to the issue of units in the fund. No exit fees are charged. Unit prices are determined by reference to the net assets of the scheme divided by the number of units on issue at close of business each day.

All or part of an investment in the fund can be switched between any of the other Australian Ethical schemes. The contribution fee charged on a switch is the difference between the contribution fee for the original scheme and the new scheme. Further details can be found in either the Climate Advocacy Fund Product Disclosure Statement or the Australian Ethical Investment Trust's Product Disclosure Statement.

**Note 1 - Statement of significant accounting policies - *continued***

**(h) Goods and services tax (GST)**

The Fund qualifies for Reduced Input Tax Credits (RITC's) at a rate of 75%.

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables in the Statement of Financial Position is shown inclusive of GST. The net amount of GST recoverable from the ATO is included in receivables in the Statement of financial position.

Cash flows are presented in the Statement of Cash Flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

**(i) Income tax**

No tax is payable by the Fund as all taxable income is distributed to unitholders.

**Accounting Standards not previously applied**

The Fund has adopted the following new and revised Australian Accounting Standards issued by the AASB which are mandatory to apply to the current interim period. Disclosures required by these Standards that are deemed material have been included in this financial report on the basis that they represent a significant change in information from that previously made available.

*Presentation of Financial Statements*

AASB 101 prescribes the contents and structure of the financial statements. Changes reflected in this financial report include:

- the replacement of the income statement with the statement of comprehensive income. Items of income and expense not recognised in profit or loss are now disclosed as components of 'other comprehensive income';
- the adoption of the single statement approach to the presentation of the statement of comprehensive income; and
- other financial statements are renamed in accordance with the Standard.

**Note 1 - Statement of significant accounting policies - *continued***

**New accounting standards for application in future periods**

The AASB has issued new, revised and amended accounting standards and interpretations that have mandatory application dates for future reporting periods. The management of the fund has decided against early adoption of these standards. A discussion of those future requirements and their impact on the fund follows:

AASB 9: Financial Instruments and AASB 2009-11: Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12] (applicable for annual reporting periods commencing on or after 1 January 2013). These standards are applicable retrospectively and amend the classification and measurement of financial assets. The fund has not yet determined the potential impact on the financial statements.

AASB 124: Related Party Disclosures (applicable for annual reporting periods commencing on or after 1 January 2011). This standard removes the requirement for government related entities to disclose details of all transactions with the government and other government related entities and clarifies the definition of a related party to remove inconsistencies and simplify the structure of the standard. No changes are expected to materially affect the fund.

AASB 2009-8: Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions [AASB 2] (applicable for annual reporting periods commencing on or after 1 January 2010). These amendments clarify the accounting for group cash-settled share-based payment transactions in the separate or individual financial statements of the entity receiving the goods or services when the entity has no obligation to settle the share-based payment transaction. The amendments incorporate the requirements previously included in Interpretation 8 and Interpretation 11 and as a consequence, these two Interpretations are superseded by the amendments. These amendments are not expected to impact the fund.

AASB 2009-10: Amendments to Australian Accounting Standards – Classification of Rights Issues [AASB 132] (applicable for annual reporting periods commencing on or after 1 February 2010). These amendments clarify that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights, options or warrants pro-rata to all existing owners of the same class of its non-derivative equity instruments. These amendments are not expected to impact the Schemes.

AASB 2009-12: Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052] (applicable for annual reporting periods commencing on or after 1 January 2011). This standard makes a number of editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of International Financial reporting Standards by the IASB. The standard also amends AASB 8 to require entities to exercise judgement in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. These amendments are not expected to impact the Schemes.

AASB 2009-13: Amendments to Australian Accounting Standards arising from Interpretations 19 [AASB 1] (applicable for annual reporting periods commencing on or after 1 July 2010). This standard makes amendments to AASB 1 arising from the issue of Interpretation 19. The amendments allow a first-time adopter to apply the transitional provisions in Interpretation 19. This standard is not expected to impact the Schemes.

Notes to the financial statements for the period ended 30 June 2010

Climate Advocacy Fund  
("CAF")

	2010 Units	2009 Units
<b>Note 2 - Number of Issued Units</b>		
On issue at beginning of year	-	-
Issued	494,632	-
Redeemed	-	-
On issue at year end	<u>494,632</u>	<u>-</u>

	2010 \$	2009 \$
<b>Note 3 - Net assets attributable to unitholders</b>		
Opening Balance	-	-
Issued	510,102	-
Redeemed	-	-
Change in net assets attributable to unitholders	(21,485)	-
Total net assets attributable to unitholders	<u>488,617</u>	<u>-</u>

**Note 4 - Cash and cash equivalents**

Cash at bank	40,258	-
	<u>40,258</u>	<u>-</u>

Cash at bank earns interest at floating rates based on daily bank deposit rates.

**Reconciliation of cash**

For the purposes of the Statement of Cashflows, cash includes cash at bank and cash on deposit. Cash at the end of the year as shown in the Statement of Cashflows, is reconciled to the related items in the Statement of Financial Position as follows:

Cash at bank	40,258	-
	<u>40,258</u>	<u>-</u>

Climate Advocacy Fund  
("CAF")

**Note 5 - Trade and other receivables**

	2010	2009
	\$	\$
Distributions receivable	2,770	-
Debtors	5,136	-
	<u>7,906</u>	<u>-</u>

**Note 6 - Financial assets at fair value through profit or loss**

**Unit Trusts**

Unlisted	444,199	-
	<u>444,199</u>	<u>-</u>

**Note 7 - Trade and other payables**

Trade payables and sundry creditors	196	-
	<u>196</u>	<u>-</u>

**Note 8 - Distribution payable**

Net amount available for distribution	<u>3,550</u>	<u>-</u>
Distributed		
half-year ended 31 December 2009	-	-
half-year ended 30 June 2010	3,550	-
	<u>3,550</u>	<u>-</u>

Climate Advocacy Fund  
("CAF")

	2010	2009
	\$	\$
<b>Note 9 - Auditors' remuneration</b>		
Amounts received or due and receivable by the Auditors of the Trust for:		
Auditing the financial report	-	-
Tax and other accounting advice	-	-
	<u>-</u>	<u>-</u>

Auditors' remuneration in respect of auditing the financial report is fully paid by the Responsible Entity.  
Other services provided by the auditors are the audit of the compliance plan of the Fund and tax compliance services.  
The auditors' non-audit remuneration is not paid by the Fund.  
Audit fees are only recognised after they are invoiced, hence the initial period shows no fees above.

**Note 10 - Cash flow information**

Reconciliation of net cash provided by operating activities with profit (loss) from operating activities

Net operating profit (loss) for the periods from ordinary activities	(17,935)	-
(Increase) Decrease in accrued income	(2,770)	-
Unrealised (increment) decrement on fluctuation in value of investments	21,485	-
(Increase) Decrease in debtors	(33)	-
Reinvested Distribution	(684)	-
Increase in Payables	196	-
Net cash provided by (used in) operating activities	<u>259</u>	<u>-</u>

**Notes to the financial statements for the period ended 30 June 2010**

**Climate Advocacy Fund  
("CAF")**

<b>2010</b>	<b>2009</b>
<b>\$</b>	<b>\$</b>

**Note 11 - Related party disclosures**

Australian Ethical Investment Limited (AEIL), as Responsible Entity of the Climate Advocacy Fund, provides investment services for the fund in accordance with the Climate Advocacy Fund's constitution. Transactions with the Responsible Entity are undertaken on commercial terms and conditions.

During the period the following amounts were paid to the Responsible Entity in accordance with the scheme's Constitution:

**Australian Ethical Investment Limited**

Management Fees	<b>523</b>	-
	<b>523</b>	-

The amounts due and payable at 30 June 2010 to the Responsible Entity, inclusive of GST but before input tax credits, in accordance with the scheme's Constitutions were:

Management Fees	<b>210</b>	-
	<b>210</b>	-

Transactions between Australian Ethical Investment Ltd and The Climate Advocacy Fund during the period were:

AEIL purchase of units	<b>100,000</b>	-
Management Fee rebate to AEIL	<b>79</b>	-
Value of units held by AEIL	<b>99,378</b>	-
Distribution receivable by AEIL	<b>718</b>	-

**Note 12 - Financial instruments**

**a) Financial risk management policies**

The Climate Advocacy Funds' financial instruments consist of: cash and cash equivalents; trade and other receivables; financial assets; trade and other payables; and distribution payable.

The responsible entity has an Investment Committee and an Audit, Compliance and Risk Committee. These are board committees which are responsible under their Charters' for the oversight of various policies and procedures to manage financial risks.

**i) Treasury risk management**

The activities of the Climate Advocacy Fund exposes it to a variety of financial risks: liquidity risk, credit risk and market risk (which includes interest rate risk, and represents the risk that a financial instrument's value will fluctuate as a result of changes in the market.)

The Investment Committee's Charter requires it to oversee the processes which govern the investment of monies of the Climate Advocacy Fund for which Australian Ethical Investment Limited is the responsible entity. The Investment Committee bears primary responsibility for the oversight of processes for the management of the above financial risks. It meets on a regular basis to analyse financial risk exposure and to evaluate management strategies in the context of the most recent economic conditions and forecasts.

The Investment Committee monitors and is responsible for maintaining the primary risk management tool for financial risks – a documented set of trust investment parameters. The activities of the Investment Committee aim to minimise the potential adverse affects on the Climate Advocacy Fund performance of the unpredictability of financial markets, while maintaining the individual qualities of the Climate Advocacy Fund as defined in the trust investment parameters.

**ii) Financial exposures and management**

The other risks the Climate Advocacy Fund is exposed to through its financial instruments are interest rate risk and credit risk. The Climate Advocacy Fund also has an exposure to liquidity risk.

**Interest rate risk**

Interest rate risk for the Climate Advocacy Fund arises from financial assets and financial liabilities recognised at the end of the reporting period whereby a future change in interest rates will affect future cash flows or the fair value of fixed rate financial instruments, the nature of the primary asset investment limits this however.

**Liquidity risk**

Liquidity risk is the risk that the Climate Advocacy Fund will encounter difficulty in realising assets or otherwise raising funds to meet commitments associated with financial instruments. To control liquidity risk, the Climate Advocacy Fund invests significant portion of their funds in financial instruments which under normal market conditions are readily convertible into cash. The responsible entity maintains liquidity guidelines. The Investment Committee and the Audit, Compliance and Risk Committee monitor liquidity and the implementation of the guidelines.

All payables of the Climate Advocacy Fund are classed as normal operating obligations and are to be paid within six months of balance date.

**Credit risk**

Credit risk represents the risk that a counterparty will fail to perform contractual obligations under a contract. The Climate Advocacy Funds' maximum credit risk exposure at balance date in relation to each class of recognised financial asset, is the carrying amount of those assets as indicated in the Statement of Financial Position. The trust investment parameters established by the responsible entity ensures credit risk is managed within accepted pre-determined guidelines. The Investment Committee meets regularly to review and if necessary, recommend modifications to the trust investment parameters.

The Climate Advocacy Trust does have credit risk exposure to a single receivable or group receivables under financial instruments entered into by the Fund, in the form of Colonial First State, who are the managers of the index tracker fund.

Notes to the financial statements for the period ended 30 June 2010

Note 12 - Financial instruments - continued

b) Financial Instrument composition and maturity analysis

The table below reflects the undiscounted contractual settlement terms for financial instruments of a fixed period of maturity, as well as management's expectations of the settlement period for all other financial instruments.

Interest rate risk is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the weighted average interest rates on classes of financial assets and financial liabilities. The Climate Advocacy Fund's exposure to that interest rate risk is as follows:

CAF	Weighted average interest rate		Floating interest rate		Fixed interest rate within 1 year		Fixed interest rate 1 to 5 years		Fixed interest rate over 5 years		Non-interest bearing		Total	
	2010 %	2009 %	2010 \$	2009 \$	2010 \$	2009 \$	2010 \$	2009 \$	2010 \$	2009 \$	2010 \$	2009 \$	2010 \$	2009 \$
Cash and cash equivalents	4	-	40,258	-	-	-	-	-	-	-	-	-	40,258	-
Trade and other receivables			-	-	-	-	-	-	-	-	7,906	-	7,906	-
Financial assets	-	-	-	-	-	-	-	-	-	-	444,199	-	444,199	-
<b>Total financial assets</b>			<b>40,258</b>	-	-	-	-	-	-	-	<b>452,105</b>	-	<b>492,363</b>	-
Trade and other payables			-	-	-	-	-	-	-	-	196	-	196	-
Distribution payable			-	-	-	-	-	-	-	-	3,550	-	3,550	-
<b>Total financial liabilities</b>			-	-	-	-	-	-	-	-	<b>3,746</b>	-	<b>3,746</b>	-

## Note 12 - Financial instruments - continued

## c) Net fair values

All financial assets are marked to market and carried at fair value as determined by an independent source where available. The net fair values of listed investments have been valued at the quoted market bid price at balance date. For other liabilities where no independent pricing source exists, the net fair value approximates their carrying value.

Financial assets are valued in accordance with the Compliance Plan to ensure carrying values are recorded at fair value. The Compliance Plan is overseen by the Audit, Compliance and Risk Committee. The Audit, Compliance and Risk Committee meets on a regular basis to ensure adherence to the Compliance Plan and that the correct basis for valuations are followed by the responsible entity.

The aggregate net fair values and carrying amounts of financial assets and financial liabilities are disclosed in the Statement of Financial Position and in the notes to the financial statements.

**Net Fair Values  
2010**

**Climate Advocacy Fund  
("CAF")**

	Carrying amount	Net fair value
	\$	\$
<b>Financial assets</b>		
Financial assets at fair value through profit or loss	444,199	444,199
Trade and other receivables	7,906	7,906
	<u>452,105</u>	<u>452,105</u>
<b>Financial liabilities</b>		
Trade and other payables	196	196
	<u>196</u>	<u>196</u>

**Net Fair Values  
2009**

<b>Financial assets</b>		
Financial assets at fair value through profit or loss	-	-
Trade and other receivables	-	-
	<u>-</u>	<u>-</u>
<b>Financial liabilities</b>		
Trade and other payables	-	-
	<u>-</u>	<u>-</u>

**Note 12 - Financial instruments - continued**

**d) Sensitivity analysis**

**Interest rate risk**

Management has performed a sensitivity analysis relating to the Climate Advocacy Funds' exposure to interest rate risk at balance date. This sensitivity analysis demonstrates the effect on the current year results and net assets attributable to unitholders which could result from a change in these risks. In the analysis it is assumed that the amount of financial assets exposed to fluctuations in interest rates as at balance date is representative of balances held throughout the financial year. No other flow on effects of fluctuations in interest rates have been taken into account.

At 30 June 2010, the effect on profit and net assets attributable to unitholders, as a result of changes in the interest rate, with all other variables remaining constant would be as follows:

**Interest Rate Sensitivity Analysis  
Change in Profit**

	<b>Climate Advocacy Fund ("CAF")</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
<b>Change in profit</b>		
Increase in interest rate by 1%	<b>403</b>	-
Decrease in interest rate by 1%	<b>(403)</b>	-

**Interest Rate Sensitivity Analysis  
Change in net assets attributable to unitholders**

<b>Change in net assets attributable to unitholders</b>		
Increase in interest rate by 1%	<b>403</b>	-
Decrease in interest rate by 1%	<b>(403)</b>	-

## Notes to the financial statements for the year ended 30 June 2010

### Note 13 - Key management personnel compensation

AASB 124 "Related Party Disclosures" requires disclosure of compensation of key management personnel. Key management personnel (KMP) is defined as persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

The scheme has no employees, however, the directors and other KMP of the Responsible Entity, as stated below, are deemed to be the KMP of the scheme. These individuals and the Responsible Entity comprise the KMP of the scheme.

#### a) Key management personnel

Names and positions of key management personnel (directors and named executives) at any time during the financial year

##### Parent entity directors

Name	Position	
James Thier	Director, executive	Resigned 11 August 2009
Howard Pender	Director, executive	
Naomi Edwards	Director, non-executive	
Justine Hickey	Director, non-executive	
Anne O'Donnell	Managing Director, executive	
Les Coleman	Director, non-executive	
André Morony	Director, non-executive	

##### Other key management personnel

Name	Position	
Gary Leckie	Chief financial officer	Resigned 30 June 2010 Appointed 7 December 2009 Appointed 7 June 2010
Tim Xirakis	Finance Investment Manager	
Philip George	Company secretary / legal counsel	
Paul Harding Davis	Head of Distribution	
Martin Halloran	Chief Investment Officer	
Phillip Vernon	Chief executive officer	
James Jordan	Chief Investment Officer	

#### b) Key management personnel compensation

	Economic entity		Parent entity	
	2010	2009	2010	2009
	\$	\$	\$	\$
Short-term employment benefits	1,866,314	1,779,448	1,809,139	1,684,770
Post-employment benefits	158,141	147,726	153,731	139,941
Other long-term benefits	21,010	34,778	21,010	34,778
Termination benefits	235,000	-	235,000	-
Share-based payments <sup>(i)</sup>	175,747	110,320	175,747	110,320
Total compensation	<u>2,456,212</u>	<u>2,072,272</u>	<u>2,394,627</u>	<u>1,969,809</u>

Further key management personnel remuneration details are included in the remuneration report section of the directors' report.

#### c) Equity instrument disclosures relating to key management personnel

##### Option Holdings

Number of options held by key management personnel.

KMP option holdings	Option class	Balance at beginning of year	No. granted	No. expired	No. vested & exercised	Balance at end of year	Vested at end of year	Vested & exercisable at end of year	Vested & unexercisable at end of year
<b>Parent entity directors</b>									
James Thier	AEFAS	1,432	-	(1,432)	-	-	1,432	1,432	-
	AEFAT	1,517	-	-	-	1,517	-	-	-
	AEFAV	1,364	-	-	-	1,364	-	-	-
	<b>2010 Total</b>	<b>4,313</b>	<b>-</b>	<b>(1,432)</b>	<b>-</b>	<b>2,881</b>	<b>1,432</b>	<b>1,432</b>	<b>-</b>
	<b>2009 Total</b>	<b>4,749</b>	<b>1,364</b>	<b>-</b>	<b>(1,800)</b>	<b>4,313</b>	<b>1,800</b>	<b>1,800</b>	<b>-</b>
Howard Pender	AEFAS	1,469	-	(1,469)	-	-	1,469	1,469	-
	AEFAT	1,513	-	-	-	1,513	-	-	-
	AEFAV	1,326	-	-	-	1,326	-	-	-
	<b>2010 Total</b>	<b>4,308</b>	<b>-</b>	<b>(1,469)</b>	<b>-</b>	<b>2,839</b>	<b>1,469</b>	<b>1,469</b>	<b>-</b>
	<b>2009 Total</b>	<b>3,913</b>	<b>1,326</b>	<b>-</b>	<b>(931)</b>	<b>4,308</b>	<b>931</b>	<b>931</b>	<b>-</b>
Anne O'Donnell	AEFAS	2,909	-	(2,909)	-	-	2,909	2,909	-
	AEFAT	3,025	-	-	-	3,025	-	-	-
	AEFAU	2,648	-	-	-	2,648	-	-	-
	<b>2010 Total</b>	<b>8,582</b>	<b>-</b>	<b>(2,909)</b>	<b>-</b>	<b>5,673</b>	<b>2,909</b>	<b>2,909</b>	<b>-</b>
	<b>2009 Total</b>	<b>8,940</b>	<b>2,648</b>	<b>-</b>	<b>(3,006)</b>	<b>8,582</b>	<b>3,006</b>	<b>3,006</b>	<b>-</b>

Notes to the financial statements for the year ended 30 June 2010

Note 13 - Key management personnel compensation - continued

Named executives (including other key management personnel)	Option class	Balance at beginning of year	No. granted	No. expired	No. vested & exercised	Balance at end of year	Vested at end of year	Vested & exercisa- ble at end of year	Vested & un- exercisable at end of year
Philip George	AEFAS	2,356	-	-	( 2,356)	-	2,356	2,356	-
	AEFAT	2,469	-	-	-	2,469	-	-	-
	AEFAU	2,169	-	-	-	2,169	-	-	-
	<b>2010 Total</b>	<b>6,994</b>	<b>-</b>	<b>-</b>	<b>( 2,356)</b>	<b>4,638</b>	<b>2,356</b>	<b>2,356</b>	<b>-</b>
	2009 Total	6,375	2,169	-	( 1,550)	6,994	1,550	1,550	-
Gary Leckie	AEFAS	1,443	-	( 1,443)	-	-	1,443	1,443	-
	AEFAT	1,767	-	-	-	1,767	-	-	-
	AEFAU	1,919	-	-	-	1,919	-	-	-
	<b>2010 Total</b>	<b>5,129</b>	<b>-</b>	<b>( 1,443)</b>	<b>-</b>	<b>3,686</b>	<b>1,443</b>	<b>1,443</b>	<b>-</b>
	2009 Total	4,597	1,919	-	( 1,387)	5,129	1,387	1,387	-
Tim Xirakis	AEFAS	1,387	-	( 1,387)	-	-	1,387	1,387	-
	AEFAT	1,776	-	-	-	1,776	-	-	-
	AEFAU	1,895	-	-	-	1,895	-	-	-
	<b>2010 Total</b>	<b>5,058</b>	<b>-</b>	<b>( 1,387)</b>	<b>-</b>	<b>3,671</b>	<b>1,387</b>	<b>1,387</b>	<b>-</b>
	2009 Total	3,163	1,895	-	-	5,058	-	-	-
Paul Harding Davis	AEFAU	1,060	-	-	-	1,060	-	-	-
	<b>2010 Total</b>	<b>1,060</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,060</b>	<b>-</b>	<b>-</b>	<b>-</b>
	2009 Total	-	1,060	-	-	1,060	-	-	-
James Jordan	AEFAT	1,146	-	-	-	1,146	-	-	-
	AEFAU	1,243	-	-	-	1,243	-	-	-
	<b>2010 Total</b>	<b>2,389</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,389</b>	<b>-</b>	<b>-</b>	<b>-</b>
	2009 Total	1,146	1,243	-	-	2,389	-	-	-

Rights holdings

Number of rights held by key management personnel.

KMP rights holdings	Rights class	Balance at beginning of year	No. granted	No. forfeited	No. vested & exercised	Balance at end of year	Vested at end of year	Vested & exercisa- ble at end of year	Vested & un- exercisable at end of year
<b>Parent entity directors</b>									
James Thier	AEFAW	-	319	-	-	319	-	-	-
	<b>2010 Total</b>	<b>-</b>	<b>319</b>	<b>-</b>	<b>-</b>	<b>319</b>	<b>-</b>	<b>-</b>	<b>-</b>
	2009 Total	-	-	-	-	-	-	-	-
Howard Pender	AEFAW	-	320	-	-	320	-	-	-
	<b>2010 Total</b>	<b>-</b>	<b>320</b>	<b>-</b>	<b>-</b>	<b>320</b>	<b>-</b>	<b>-</b>	<b>-</b>
	2009 Total	-	-	-	-	-	-	-	-
<b>Named executives (including other key management personnel)</b>									
Philip George	AEFAW	-	501	-	-	501	-	-	-
	<b>2010 Total</b>	<b>-</b>	<b>501</b>	<b>-</b>	<b>-</b>	<b>501</b>	<b>-</b>	<b>-</b>	<b>-</b>
	2009 Total	-	-	-	-	-	-	-	-
Gary Leckie	AEFAW	-	506	-	-	506	-	-	-
	<b>2010 Total</b>	<b>-</b>	<b>506</b>	<b>-</b>	<b>-</b>	<b>506</b>	<b>-</b>	<b>-</b>	<b>-</b>
	2009 Total	-	-	-	-	-	-	-	-
Tim Xirakis	AEFAW	-	493	-	-	493	-	-	-
	<b>2010 Total</b>	<b>-</b>	<b>493</b>	<b>-</b>	<b>-</b>	<b>493</b>	<b>-</b>	<b>-</b>	<b>-</b>
	2009 Total	-	-	-	-	-	-	-	-
Paul Harding Davis	AEFAW	-	531	-	-	531	-	-	-
	<b>2010 Total</b>	<b>-</b>	<b>531</b>	<b>-</b>	<b>-</b>	<b>531</b>	<b>-</b>	<b>-</b>	<b>-</b>
	2009 Total	-	-	-	-	-	-	-	-
Martin Halloran	AEFAW	-	550	( 550)	-	-	-	-	-
	AEFAX	-	966	( 966)	-	-	-	-	-
	<b>2010 Total</b>	<b>-</b>	<b>1516</b>	<b>( 1,516)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
	2009 Total	-	-	-	-	-	-	-	-
James Jordan	AEFAW	-	409	-	-	409	-	-	-
	AEFAX	-	862	-	-	862	-	-	-
	<b>2010 Total</b>	<b>-</b>	<b>1271</b>	<b>-</b>	<b>-</b>	<b>1271</b>	<b>-</b>	<b>-</b>	<b>-</b>
	2009 Total	-	-	-	-	-	-	-	-
Phillip Vernon	AEFAW	-	317	-	-	317	-	-	-
	<b>2010 Total</b>	<b>-</b>	<b>317</b>	<b>-</b>	<b>-</b>	<b>317</b>	<b>-</b>	<b>-</b>	<b>-</b>
	2009 Total	-	-	-	-	-	-	-	-

Notes to the financial statements for the year ended 30 June 2010

Note 13 - Key management personnel compensation - continued

Share holdings

Number of shares held by key management personnel.

Parent entity directors		Balance at beginning of year	Acquired / granted as remuneration	On exercise of options/ rights	Net change other (1)	Balance at end of year (2) & (3)
James Thier	2010	65,846	-	-	-	65,846
	2009	64,218	28	1,800	( 200)	65,846
Howard Pender	2010	52,283	-	-	( 400)	51,883
	2009	51,743	109	931	( 500)	52,283
Justine Hickey	2010	700	-	-	-	700
	2009	700	-	-	-	700
Anne O'Donnell	2010	11,988	-	-	( 1,500)	10,488
	2009	8,982	168	3,006	( 168)	11,988
<b>Named executives (including other key management personnel)</b>						
Philip George	2010	489	-	-	615	1,104
	2009	381	-	1,550	( 1,442)	489
Gary Leckie	2010	-	-	-	-	-
	2009	-	-	1,387	( 1,387)	-
Paul Harding Davis	2010	78	-	-	1,520	1,598
	2009	-	78	-	-	78

(1) "Net change other" incorporates changes resulting from purchases, sales, forfeitures during the year.

(2) Shares issued are fully paid

(3) Balance represents shareholdings by key management personnel including their related parties as required by AASB 124 Related Party Disclosures

Key management personnel loans

	Balance at beginning of year	Interest charged	Interest not charged	Write-off	Balance at end of year	No. of individuals at end of year
<b>Key management personnel</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	
2010	-	1,697.65	-	-	43,358.14	2
2009	-	-	-	-	-	-

(a) The initial loan principal of \$49,888.70 was granted to key management personnel under the Australian Ethical Investment Limited employee share loan scheme (ESLS) and represents 1,585 ordinary shares.

(b) The loan is repayable by 30 November 2013 and currently bears interest at 6.65 % per annum as per the FBT

(c) In the 2009-10 reporting period, there were no loans to individuals that exceeded \$100,000 at any time.

## **Directors' Declaration**

The Directors of Australian Ethical Investment Limited (the responsible entity) declare that:

1. The financial statements of the Climate Advocacy Fund and notes as set out on pages 3 to 20 are in accordance with the Corporations Act 2001:
  - (a) comply with Accounting Standards and the Corporations Regulations 2001; and
  - (b) give a true and fair view of the financial position as at 30 June 2010 and of the performance for the financial period ended on that date for the scheme.
2. In the Directors' opinion there are reasonable grounds to believe that the scheme will be able to pay its debts as and when they become due and payable.
3. The scheme has operated during the financial year ended 30 June 2010 in accordance with the provisions of the scheme's constitution.

This declaration is made in accordance with a resolution of the Board of Directors of Australian Ethical Investment Limited.

A handwritten signature in black ink, consisting of a large, stylized 'P' followed by a horizontal line extending to the right.

Phillip Vernon  
Managing Director  
Australian Ethical Investment Limited  
ABN 47 003 188 930  
22 September 2010

## INDEPENDENT AUDITOR'S REPORT TO THE UNITHOLDERS OF

### CLIMATE ADVOCACY FUND

We have audited the accompanying financial reports of The Climate Advocacy Fund ("the scheme"), which comprises the statement of financial position as at 30 June, 2010 and the statement of comprehensive income, and statement of cashflows for the period ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration of the scheme.

#### *The Directors of the Responsible Entity's Responsibility for the Financial Report*

The Directors of the Responsible Entity, Australian Ethical Investment Limited are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial reports that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

In Note 1, the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial reports, comprising the financial statements and notes, complies with International Financial Reporting Standards.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on the financial reports based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial reports are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the schemes preparation and fair presentation of the financial reports in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the scheme's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Independence*

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001

*Auditors Opinion*

In our opinion:

- (a) the financial report of The Climate Advocacy Fund is in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of the scheme's financial position as at 30 June, 2010 and of its performance for the period ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1; and
- (c) the financial report is in accordance with the provisions of the scheme's constitution.



**THOMAS DAVIS & CO.**



**J.G. RYAN PARTNER**

Chartered Accountants

SYDNEY,

22 September 2010

Liability limited by a scheme approved under Professional Standards Legislation