

COMMENTARY FOR JUNE 2010

The one-month return for the Income Trust was 0.3% against the benchmark's (90 Day Bank Bill) return of 0.4%, with the market moving to anticipate further rises from the Reserve Bank of Australia, seeing the 90 Day Bank Bill's rate move from 4.80% to 4.89% over the month.

Credit spreads remained steady for those investments held by the fund over June, and so the value of bank and corporate bonds and mortgage-backed securities in the portfolio held ground over the month.

Returns available from the term deposit market have begun to deteriorate as competition in this space eases. This easing in competition, and an anticipation of future amendments to the Financial Claims Scheme under which the deposits are guaranteed will prompt a winding back of the level of term deposits in the portfolio.

The decline in returns offered on term deposits saw the Income Trust call funds on maturity with Police and Nurses Credit Society and Bank of Queensland. It also purchased two new corporate bonds, both floating rate instruments; one issued by Broadcast Australia Finance, which funds the television and radio broadcast infrastructure in Australia, and the other issued by Snowy Hydro Ltd.

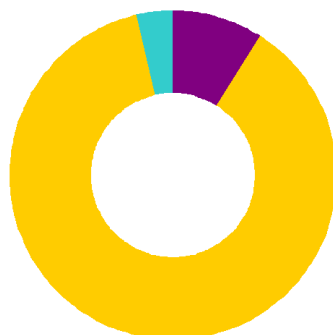
In July, the Income Trust's cash holdings will be used to fund its distributions for the year end 30 June, and to purchase a new residential mortgage-backed security issue from Torrens Trust (the securitisation arm of Bendigo and Adelaide Bank). RMBS holdings at the end of June had fallen to 16.7% from 17.7% previously, following further regular principal repayments in each mortgage pool throughout the month.

PERFORMANCE

	3 months	6 months	1 year	3 years	5 years	10 years	Since inception
Income Trust	1.2%	2.3%	5.1%	4.5%	4.7%	4.8%	4.6%

ASSET ALLOCATION

- 9.00% Cash
- 87.25% Interest bearing (general)
- 3.75% Interest bearing (loans)



TOP TEN HOLDINGS

- Suncorp-Metway Bank Ltd
- Bank of Queensland Ltd
- Bendigo & Adelaide Bank Ltd
- ING Bank
- Westpac
- Heritage Building Society
- Savings & Loans Credit Union
- Members Equity Bank
- Newcastle Permanent Building Society
- St George Bank Ltd

FUND SIZE

\$30.4m

INVESTMENT PROFILE

Members Equity Bank was originally formed in 1999 and supported by the Australian Council of Trade Unions. It was originally designed to offer low cost home loans to its members, but has since expanded to provide a range of other financial services. Members Equity Bank is a signatory to the UN PRI, UN Global Compact, UN Environment Program Finance Initiative and the Victorian EPA Sustainability Covenant.

KEY INFORMATION

Responsible entity	Australian Ethical Investment Ltd	Contribution fee	0.50%
Minimum investment	\$5,000	Withdrawal fee	Nil
Distribution	Half yearly	Performance fee	Nil
APIR	AUG0003AU	Indirect cost ratio	1.60%
ARSN	089 919 120		

OBJECTIVE

The **australianethical** Income Trust aims to generate a competitive income stream while minimising the risk of capital loss and supporting the **australianethical** Charter.

STRUCTURE

The fund is an open ended public unit trust.

CONTACT

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COMPANY SUMMARY

Australian Ethical Investment Ltd is a fund manager that specialises exclusively in sustainable funds management, offering managed funds and superannuation. **australianethical** has applied its rigorous ESG investment process to its portfolios for over two decades. Beyond screening out investments that negatively impact on society, **australianethical** uniquely seeks out investments in genuinely sustainable industries.

* CPI figures used are updated on a quarterly basis as available from the ABS.

Past performance is not a reliable indicator of future performance. Performance figures are calculated using exit prices. Performance figures take into account ongoing management fees and trust expenses. Performance figures are calculated as if distributions of income have been reinvested. They do not take into account tax that may be payable on the distribution of income. Neither the return of capital nor the performance of a trust is guaranteed. Figures showing a period of less than one year have not been adjusted to show an annual return. Figures for periods of greater than one year are on a per annum compound basis. The latest available performance figures can be obtained from our website www.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. **australianethical**® is a registered trademark of Australian Ethical Investment Ltd.