

COMMENTARY FOR JUNE 2010

The Smaller Companies Trust fell 3.6% in the month of June, on the back of continued weakness in global equity markets. This performance was slightly behind the broader Australian industrials index (the S&P/ASX 200 Industrials index fell 3.2%) but in front of the its benchmark (the S&P/ASX Small Industrials index), which fell 5.0%.

Outperformance over the month is primarily attributed to stock selection in the australianethical International Equities Trust. The 'Global Smart Energy' themed fund fell 1.4% compared to the MSCI World index, which fell 3.8%. Positive returns from the fund's Asian stocks held up the fund's performance. In particular, Asahi Holdings, a Japanese metal recycling company had another strong month, up 11% on better than expected results and guidance.

Domestically the fund's strong concentration in the defensive sectors of telecommunications and utilities contributed positively to performance. These gains were offset however, by the fund's exposure to biotech company Pharmaxis, which fell 33% during the month. Pharmaxis fell heavily after announcing six month data from its second Phase 3 clinical trial of its lead drug, 'Bronchitol'. The data actually demonstrated improved lung function compared to its prior clinical trial, but narrowly missed statistical significance (significance of P value of 5.9 against 5% targeted). We remain confident Bronchitol will be approved for sale in Europe latter this year, followed by USA in 2011. The company is initially seeking clearance for the use of Bronchitol in the treatment of cystic fibrosis, but is also commercialising the drug for the treatment of a chronic lung disease called bronchiectasis.

PERFORMANCE

	3 months	6 months	1 year	3 years	5 years	10 years	Since inception
Smaller Companies Trust	-8.2%	-10.0%	4.9%	-3.7%	6.9%	6.6%	9.1%
S&P/ASX Small Industrials Index	-12.8%	-14.0%	10.3%	-18.1%	-1.8%	2.9%	5.7%

GICS SECTORS

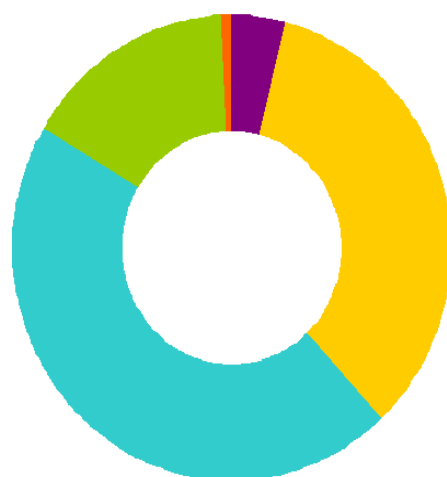
Sector	% of portfolio	% of S&P/ASX 200 index
Energy	7.3%	7.2%
Materials	6.0%	25.4%
Industrials	8.0%	5.9%
Consumer Discretionary	4.8%	4.1%
Consumer Staples	0.0%	9.0%
Health Care	25.2%	3.6%
Financials	14.7%	35.1%
Information Technology	14.8%	0.7%
Telecoms. Services	10.2%	4.0%
Utilities	9.0%	1.4%

TOP HOLDINGS

Origin Energy Ltd
Sims Metal Management Ltd
Westpac
Computershare Ltd
QBE Insurance Group
Pharmaxis Ltd
iiNet Ltd
Energy Developments Ltd
Cochlear Ltd

ASSET ALLOCATION

3.79%	Cash and options
34.37%	Equities (small caps)
45.34%	Equities (AU & NZ)
15.80%	Equities (international)
0.70%	Equities (unlisted AU)



BEST SIGNIFICANT PERFORMERS

Dexion Ltd	+10.1%
iiNet Ltd	+4.3%
QRX Pharma Ltd	+5.4%

WORST SIGNIFICANT PERFORMERS

Pharmaxis Ltd	-33.1%
Sims Metal Management Ltd	-13.9%
Westpac	-7.5%

FUND SIZE

\$213.0m

INVESTMENT PROFILES

Tracing its history back to small beginnings in 1886, the **QBE Insurance Group** is now one of Australia's largest general insurance and reinsurance groups. Activities include underwriting general and reinsurance risks, investment management and management of the economic entity's share of the NSW and Victorian workers' compensation scheme.

Energy Developments is a Queensland-based company engaged in the development and management of an international portfolio of projects with a particular focus on renewable energy and waste fuels. Power plants operated by Energy Developments are providing greenhouse gas emission reductions equivalent to approximately 10 million tonnes per year of carbon dioxide.

KEY INFORMATION

Responsible entity	Australian Ethical Investment Ltd
Minimum investment	\$5,000
Distribution	Half yearly
APIR	AUG0002AU
ARSN	089 919 175

Contribution fee	
– Standard (non-electronic) investor	3.60%
– Electronic investor	2.00%
<i>The fee is reduced for direct investments of \$35,000 and above</i>	
Withdrawal fee	Nil
Performance fee	Nil
Indirect cost ratio	2.11%

OBJECTIVE

The **australianethical** Smaller Companies Trust aims to provide long-term growth focusing on smaller Australian and overseas companies that meet 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.

* The performances are ranked based on the effect within the fund, rather than on the percentage movement within the price. The percentages shown are the individual shares change in price over the course of the month.

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.