

COMMENTARY FOR DECEMBER 2011

Over the month of December the Income Trust returned 0.2 per cent, underperforming the benchmark 90 Day Bank Bills Rate (which returned 0.4 per cent) by 0.2 per cent.




For the second consecutive meeting the Reserve Bank cut the cash rate from 4.5 per cent to 4.3 per cent, a move largely priced into the 90 Day Bank Bills rate which fell only slightly over the month from 4.6 per cent to 4.5 per cent. This decline in the 90 Day Bank Bills rate feeds through to the Trust's floating rate investments and term deposits when they reset.

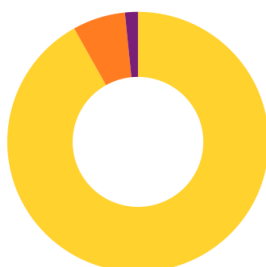
At the same time risk premia on some credit investments widened over the month, driving down the capital value of some of the Trust's investments such as Suncorp's listed subordinated debt which fell 2.5 per cent and Bank of Queensland subordinated debt which fell 0.3 per cent. While carrying less credit risk than corporate bonds, the market also increased risk premia on the bonds issued by the South Australian and Northern Territory governments. The capital value of both fell 0.3 per cent as their yields widened relative to Commonwealth Government bonds, losing part of the gains from the previous month.

PERFORMANCE

	1 month	3 months	1 year	3 years	5 years	10 years	Since inception (1 September 1997)
Australian Ethical Income Trust	0.2%	1.2%	4.7%	4.9%	4.7%	4.8%	4.6%
Australian 90 Day Bank Bill Benchmark Index	0.4%	1.2%	5.0%	4.4%	5.5%	5.5%	5.5%

ASSET ALLOCATION

	91.9% Australian fixed interest
	6.5% Australian cash
	1.6% Australian mortgages



TOP HOLDINGS

Company	% of portfolio
Bank of Queensland	9.5%
Suncorp Metway	9.3%
Westpac	8.9%
Bendigo and Adelaide Bank	5.4%
ING Bank Australia	3.6%
Illawarra Mutual Building Society	3.0%
Heritage Building Society	3.0%
Newcastle Permanent Building Society	2.7%
Torrens Trust	2.6%
Australian Pipeline	2.6%

FUND SIZE

\$42.7m

INVESTMENT PROFILE

Bank of Queensland generates a high proportion of its earnings from retail banking services, including from home loans. It also supports a range of community initiatives and has formed community partnerships in five major youth areas: education, health, welfare, the arts and the environment.

The **Suncorp Group** is Australia's fifth largest bank and the largest insurance group in Australia. The company focuses on retail consumers and small to medium business. The company has a number of community involvement programs.

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	1.67% at 31 Dec 2010
ARSN	089 919 120		

OBJECTIVE

The Australian Ethical 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

professional@australianethical.com.au

1800 021 227

GPO Box 2435 Canberra ACT 2601 Australia

COMPANY SUMMARY

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

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

Return of capital and the performance of your investment in the managed funds are not guaranteed. Past performance is not a reliable indicator of future performance. Figures showing a period of less than one year have not been adjusted to show an annual total return. Figures for periods of greater than one year are on a per annum compound basis. Total returns are calculated using the sell (exit) price, net of administration and investment management fees, gross of tax and as if distributions of income have been reinvested at the actual distribution reinvestment price. The latest available performance figures can be obtained from our website www.australianethical.com.au or by calling 1800 021 227. Units in the managed funds are offered and issued by Australian Ethical Investment Ltd ABN 47 003 188 930, AFSL 229949. Our product guide (PDS) and financial services guide are available from our website or by phone and should be considered before making an investment decision. 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@](http://australianethical.com.au) is a registered trademark of Australian Ethical Investment Ltd.