

COMMENTARY FOR DECEMBER 2011

Over the month of December the International Equities Trust (themed around Global Smart Energy) fell by 2.2 per cent, underperforming the benchmark MSCI World (AUD) Index (which remained steady at 0 per cent) by 2.2 per cent.

The underperformance largely reflected weakness in the Trust's US cyclical stocks as well as the solar sector. Two stocks in particular had a considerable negative impact - First Solar fell 29 per cent in the month as the company's new CEO significantly adjusted down the 2012 outlook, while furniture manufacturer Herman Miller's stock price declined 14 per cent after management also lowered future earnings guidance.

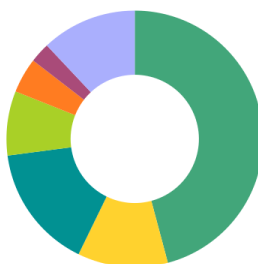
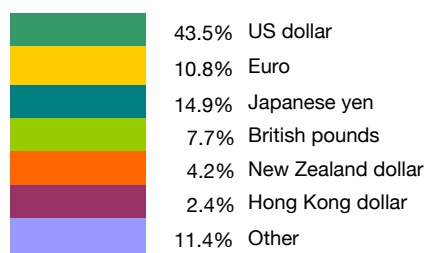
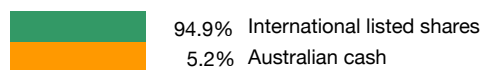
Cleantech and renewable stocks, notably solar stocks, had another tough month. The Wilderhill New Energy Global Innovation Index, a proxy for cleantech stocks, was down a further 6.8 per cent. The Ardour Solar Energy Index was down 8 per cent for the month and has now declined 64 per cent in the past six months. Valuations of solar stocks have been slashed in recent months as the industry adjusts to a massive oversupply of most products while declining government incentives in major markets and European macro concerns have slowed sales growth.

In local terms (which exclude the impact of currencies) the Trust's underperformance was 2.3 per cent as the relative currency mismatch between the Trust and the index resulted in a net detractor to the Trust of 0.1 per cent. The negative currency impact was largely due to our relative overweight position in Western Europe versus the benchmark.

PERFORMANCE

	1 month	3 months	1 year	3 years	Since inception (30 July 2007)
Australian Ethical International Equities Trust	-2.2%	-4.6%	-22.6%	-9.8%	-13.6%
MSCI World (AUD) Benchmark Index	0.0%	2.1%	-5.2%	-1.4%	-7.9%

ASSET ALLOCATION AND REGIONAL BREAK-UP



SECTORS

ENERGY DEMAND		ENERGY SUPPLY	
Transport	19.2%	Solar	7.5%
Recycling	18.3%	Wind	0.3%
Efficiency	25.3%	Utilities/n.gas	14.4%
Smart grid	6.1%	Geothermal	3.8%
Total	68.9%	Total	26.0%

BEST SIGNIFICANT PERFORMERS[°]

- Tokyo Gas
- Stagecoach Group
- National Express Group

WORST SIGNIFICANT PERFORMERS[°]

- First Solar
- Citrix Systems
- Herman Miller

FUND SIZE

\$72.7m (gross)

GICS SECTORS

Sector	% of portfolio
Energy	0.00
Materials	2.21
Industrials	44.78
Consumer Discretionary	8.64
Consumer Staples	0.00
Health Care	0.00
Information Technology	23.11
Telecommunication Services	0.00
Utilities	16.11
Financials ex Property Trusts	0.00
Property Trusts	0.00

TOP TEN HOLDINGS

Company	% of portfolio
Asahi Holdings	4.7%
Osaka Gas Co	4.0%
Cooper Industries	3.9%
Adobe Systems	3.9%
Shimano	3.4%
Electronics for Imaging	3.4%
National Express Group	3.2%
Accell Group	2.8%
Tokyo Gas Company	2.8%
Aegion	2.6%

INVESTMENT PROFILES

Tokyo Gas generates the majority of its revenue from the sale of natural gas and gas appliances. Other activities include the supply of district heating and cooling systems for cold and hot water and vapour and the supply of electricity. Tokyo Gas is also exploring the use of fuel cells in providing energy and heating for their residential customers.

Stagecoach Group is a leading international public transportation group, with extensive operations in the United Kingdom, United States and Canada. The company employs around 30,000 people, and operates bus, coach, rail, and tram services. The company operations integrate public transport systems that will form the core of future efforts to reduce pollution levels, alleviate road congestion and improve the quality of life in towns and cities. Stagecoach Group aim to be a market-leading public transport business with long term growth prospects based on high-quality services and investment in innovation.

THEMATIC FOCUS

The Global Smart Energy theme of the Australian Ethical International Equities Trust provides exposure to a broad range of investments focusing on both the supply and demand of clean energy. As well as clean energy supply sources such as solar, wind, and geothermal, the fund also invests in the demand for energy efficient technologies such as smart metering, recycling and efficient transport. We believe this all-round exposure to the critical themes of climate change and energy security presents a compelling potential for long-term growth and outperformance.

KEY INFORMATION

Responsible entity	Australian Ethical Investment Ltd	Contribution fee	
Minimum investment	\$20,000	– Standard (non-electronic) investor	3.60%
Distribution	Half yearly	– Electronic investor	2.00%
APIR	AUG0006AU	<i>The fee is reduced for direct investments of \$35,000 and above</i>	
ARSN	124 861 338	Withdrawal fee	Nil
		Performance fee	Nil
		Indirect cost ratio	1.52% at 30 Jun 2011

OBJECTIVE

The Australian Ethical International Equities Trust aims to provide long-term growth through investment in overseas companies which meet the Australian Ethical 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. Australian Ethical has applied its rigorous ESG investment process to its portfolios for over two decades. Beyond screening out investments that negatively impact on society, Australian Ethical uniquely seeks out investments in genuinely sustainable industries.

° The performances are ranked based on the effect within the Trust, 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.

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. Australian Ethical® is a registered trademark of Australian Ethical Investment Ltd.